

More Jobs for Marylanders Tax Credit Reserve Fund

ANNUAL REPORT

Pursuant to Tax General Article §10-741(e)

Submitted by:

Maryland Department of Commerce

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OVERVIEW

Chapter 149, Acts of 2017, established the More Jobs for Marylanders Program (Program) within the Department of Commerce (Commerce) to incentivize and encourage manufacturers to create jobs in areas of Maryland that need jobs the most. The incentives are available for a 10-year period for eligible new and existing manufacturers in “Tier 1” or “Tier 2” counties in Maryland that are enrolled in the Program before June 1, 2022, create the minimum required jobs and meet other Program requirements.

Chapter 584, Acts of 2018, changed the income criteria in the definition of a Tier 1 County to include counties with median household income for the most recent 24-month period equal to or less than 75 percent of the median household income of the State. As a result, the following counties qualify as Tier 1 Counties as of July 1, 2018: Baltimore City and Allegany, Caroline, Dorchester, Garrett, Kent, Somerset, Washington, Wicomico and Worcester Counties. Tier 2 counties that have been promoted for Tier 1 benefits, per the Commerce Secretary's approval authority, are Baltimore, Cecil and Prince George's Counties. All other counties are considered Tier 2 counties.

Chapter 211, Acts of 2019, expanded the Program by allowing businesses that locate or expand in Opportunity Zones to be eligible for Tier 1 tax and fee benefits even if the businesses are not in the manufacturing industry. Nonmanufacturing companies located in an Opportunity Zone must pay a minimum annual salary of at least \$50,000 in order to qualify.

As required by the statute, Commerce developed an application process for companies that plan to participate in the Program. The first step is that companies must submit a Notice of Intent (NOI) to Commerce. A new company locating to the State must provide notice before establishing its facility in Maryland; an existing company must provide notice before it begins creating new jobs. Upon receipt of a NOI, Commerce provides the business with an application to enroll its project in the More Jobs for Marylanders Program. Upon receipt of the completed Project Enrollment Application, Commerce certifies those companies that meet the program requirements as Qualified Business Entities, eligible to apply for the available tax credits.

Businesses submit an Initial Income Tax Application that includes a list of projected jobs and wages for that year. Commerce calculates a maximum credit for the business for that benefit year and issues the company an Initial Income Tax Credit Certificate. The amount of credit on the Initial Income Tax Credit certificate is then reserved for the business. Once the positions are filled for 12 months, the business applies for Final Income Tax Credit Certification. The amount of credit on the Final Certificate is the amount of credit the business may claim for that benefit year and may not be more than what was reserved on the Initial Income Tax Credit Certificate.

Commerce began accepting NOIs for the Program on June 1, 2017. As of July 31, 2020 Commerce has received 226 NOIs.

To date, Commerce has received 96 applications from companies representing 5,628 new jobs through FY2030. For purposes of the projections of this report, Commerce focused solely on applications that are moving forward with jobs that would qualify for benefits in/through FY2025.

Throughout this report the level of activity for the program is accounted for by projects, not companies. There are instances where a company may have more than one eligible location, or has more than one expansion project at the same location.

BENEFITS

Provides tax incentives tied to job creation for a 10-year period.

1. New businesses in Tier 1 jurisdictions receive a refundable State income tax credit (5.75% of the wage per new position); State Property Tax Credit (\$0.112 per \$100 assessed); refund of Sales and Use Tax; and waiver of SDAT fees for the creation of 5 or more new jobs.
2. Existing businesses in Tier 1 and Tier 2 jurisdictions receive a refundable State income tax credit of 5.75% of the wage per new position, for the creation of 5 new jobs and 10 new jobs, respectively.

To qualify a manufacturing business must:

- Be a manufacturer primarily engaged in activities at the facility that according to the North American Industrial Classification System, would be included in Sector 31, 32, or 33, except for Refiners.
- Offer ongoing job training or a postsecondary education program (e.g. tuition reimbursement).
- A new manufacturer must notify Commerce of its intent to be designated eligible before it establishes a facility in the state.
- An existing manufacturer must notify Commerce of its intent to be designated eligible for the program incentives before it creates new jobs.
- New or existing manufacturers in Tier 1 counties must create at least five new qualified jobs. (A qualified job is a job that is full-time, pays at least 120% of State minimum wage and is filled for 12 months.)
- Existing manufacturers in Tier 2 counties must create at least ten new qualified jobs. (A qualified job is a job that is full-time, pays at least 120% of State minimum wage and is filled for 12 months.)
- The manufacturer must begin hiring within 12 months of its NOI Date to Commerce and meet the 5 or 10 job minimum within 12 months of its first hire.
- Enroll its project in the program before June 1, 2022.

To qualify a non-manufacturing business must:

- Be located in an Opportunity Zone.
- Provide a Notice of Intent to Commerce before hiring.

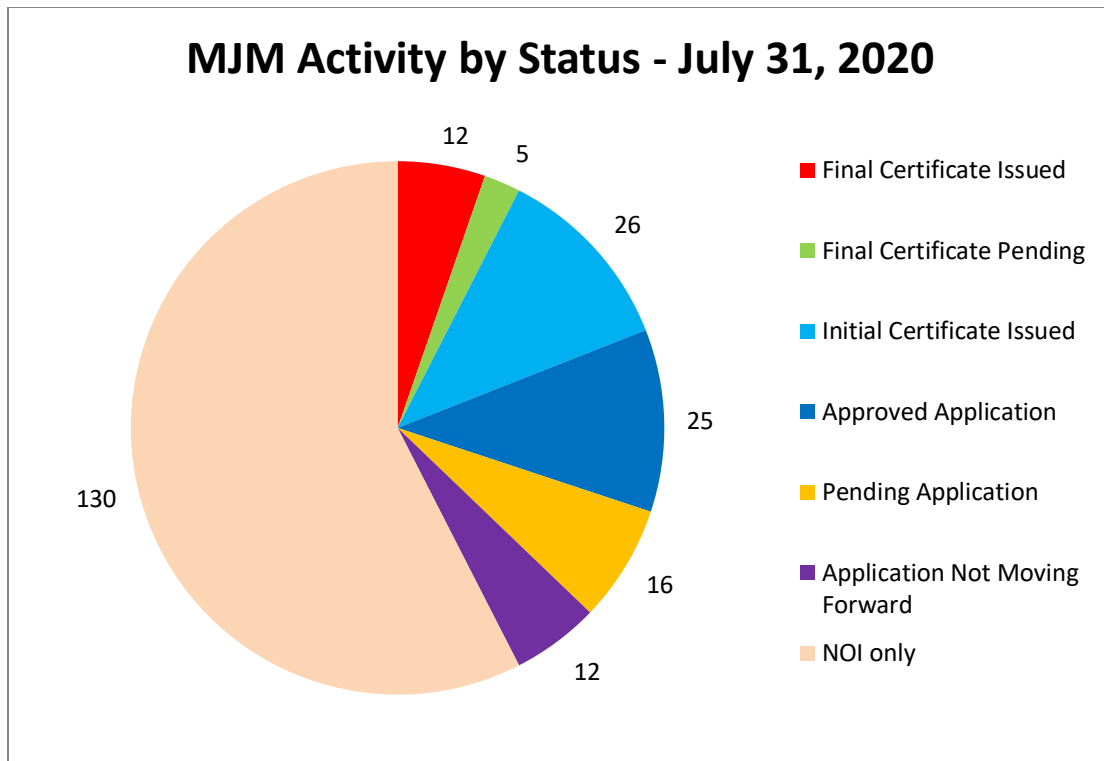
- Create at least five new qualified jobs. (A qualified job is a job that is full-time, pays at least \$50,000 per year, and is filled for 12 months before they qualify for credits.)
- Offer ongoing job training or provide a post-secondary education program
- Begin hiring within 12 months of its Notice of Intent to Commerce. Once a business begins hiring, it must add 5 new qualified jobs within 12 months after the date of its first new hire.
- Existing businesses that move their facility from one Maryland County to another after June 1, 2017 will not be eligible to participate.
- Be certified by Commerce as a qualified business entity.
- Non-manufacturing businesses do NOT include businesses that: (i) provide adult entertainment, (ii) are primarily engaged in retail activities (except Grocery Stores), (iii) are primarily engaged in the sale or distribution of alcoholic beverages, or (iv) are one of the following types of entities: a private or commercial golf course or country club, a tanning salon, or a bail bondsman.
- Enroll its project in the program before June 1, 2022.

FISCAL YEAR 2020 ACTIVITY

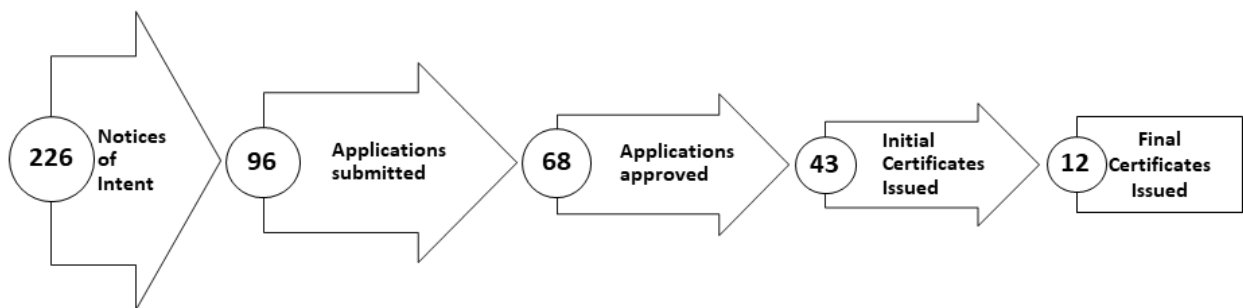
Commerce has received Notices of Intent (NOI) from companies representing 226 projects interested in applying for the More Jobs for Marylanders' tax credits. As of July 31, 2020, 96 of the 226 projects have submitted applications to enroll in the program. Commerce has certified 71 of these 96 projects as Qualified Business Entities eligible to apply for the available tax credits. The applications from the remaining 25 projects are missing information, are otherwise still incomplete, or are not going forward. Commerce continues to work with those projects that continue to go forward.

Of the 71 Qualified Business Entities, Commerce has issued Initial Tax Credit Certificates for 43 projects, with three additional Certificates pending. Of these 46 projects, Commerce has issued Final Tax Credit Certificates for 12 projects, with five Certificates pending.

The remaining 130 companies that submitted a Notice of Intent have not subsequently submitted applications. While these 130 companies may eventually submit an application, they are not factored into the projected demand for the credit for the purposes of this report.

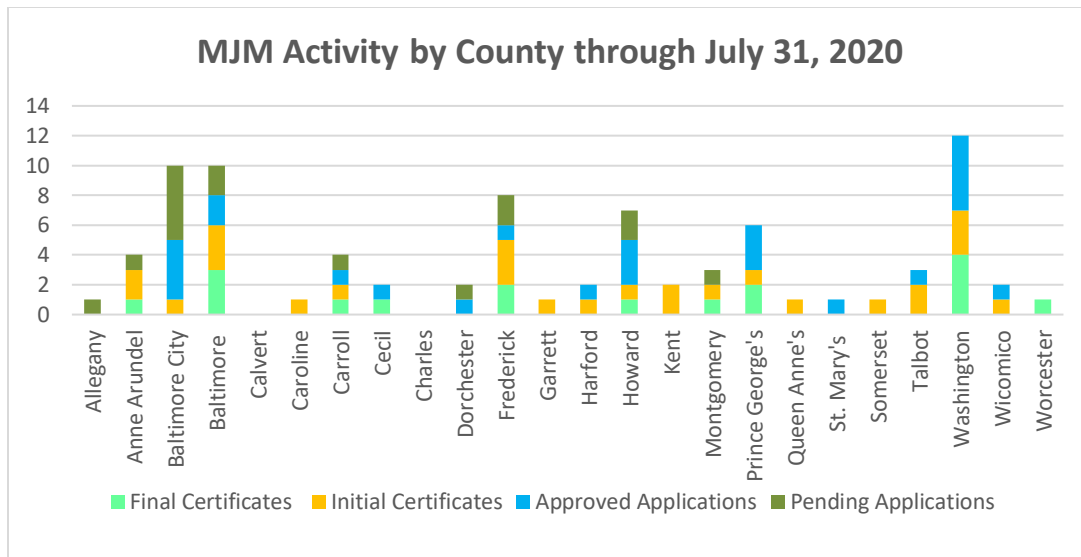


The graphic below summarizes the steps by which a project advances from Notice of Intent to Applicant to receiving its Initial and Final Income Tax Credit Certificate.



The More Jobs for Marylanders Tax Credit Program is having an impact statewide, encouraging businesses to expand and locate their manufacturing workforce in Maryland. The chart below shows the distribution by county of the number of Final Income Tax Credit Certificates Issued or Pending, the number of Initial Income Tax Credit Certificates Issued or Pending, the number of Approved Enrollment Applications and Pending Enrollment Applications.

Twenty-two (22) of Maryland's 24 jurisdictions have at least one project among the 84 projects that have progressed to the application step or the certificate step. Of the two counties without such a project, one Notice of Intent was received for a project in Charles County, leaving Calvert County as the only jurisdiction without a project participating in the program.



PROJECTED DEMAND FOR THE TAX CREDIT

Final Certificates

FY2020 was the first year of the program when Final Income Tax Credit Certificates were issued, representing the final step of the application process. As of July 31, 2020, Commerce has issued 12 Final Certificates. Data for Jobs, Wages and Credits in Table 1 below reflects actual performance for the 12 projects with Final Certificates.

Table 1

Final Income Tax Credit Certificates as of July 31, 2020	
Total Certificates Issued or Pending	12
By Tier	
Tier 1	8
Tier 2	4
New versus Existing	
New (Tier 1)	1
Existing	11
Tier 1	7
Tier 2	4
Projected Jobs, Wages, Credits (Year 1 = FY2020)	
Projected Year 1 New Jobs	168
Projected Year 1 Wages	\$ 8,763,357
Projected Year 1 Credits	\$ 633,785
Projected New Jobs Through FY2025	833
Projected Total Wages in FY2025	\$ 37,959,333
Projected Total Credits in FY2025	\$ 2,182,662

Going into FY2021, the 12 projects with Final Certificates Issued will be in their second year. Together with another five projects currently pending issuance of a final certificate, these 17 projects are expected to add 602 new jobs and \$33 million in wages in FY2021, requiring over \$1.9 million in credits. When combined with the existing jobs, annual wages and annual credits from the 12 projects in FY2020, Table 2 summarizes the demand for \$2.4 million in credits in FY2021 for these 17 projects.

Table 2

Final Income Tax Credit Certificates as of July 31, 2020	
Total Certificates Issued or Pending	17
By Tier	
Tier 1	11
Tier 2	6
New versus Existing	
New (Tier 1)	2
Existing	15
Tier 1	9
Tier 2	6
Projected Jobs, Wages, Credits (FY2021)	
Projected Year FY2021 Jobs	770
Projected Year FY2021 Wages	\$ 41,887,292
Projected Year FY2021 Credits	\$ 2,408,519
Projected New Jobs Through FY2025	2,002
Projected Total Wages in FY2025	\$ 136,457,610
Projected Total Credits in FY2025	\$ 7,846,662

Initial Certificates

There are 26 projects which have been issued Initial Income Tax Credit Certificates, but have not progressed to the Final Certificate step. These projects, summarized below in Table 3, are likely to be issued a Final Certificate in FY2021.

An existing digital marketing company in Talbot County is the only non-manufacturer to receive Tier 1 benefits by virtue of its location in an Opportunity Zone. The project is projected to create 22 new jobs. This business is one of the 26 projects to have been issued an Initial Income Tax Credit Certificate.

Table 3

Initial Income Tax Credit Certificates as of July 31, 2020	
Total Initial Certificates Issued (but not a Final Certificate Issued or Pending)	26
By Tier	
Tier 1	15
Tier 2	11
New versus Existing	
New (Tier 1)	0
Existing	26
Tier 1	15
Tier 2	11
Projected Jobs, Wages, Credits (Year 1 = FY2021)	
Projected Year 1 New Jobs	552
Projected Year 1 Wages	\$ 41,657,406
Projected Year 1 Credits	\$ 2,395,301
Projected New Jobs Through FY2025	2,002
Projected Total Wages in FY2025	\$ 136,457,610
Projected Total Credits in FY2025	\$ 7,846,313

Applications Approved and Enrolled as Qualified Business Entities.

There are 25 projects for which applications have been approved and are enrolled in the program as Qualified Business Entities. Three of these 25 projects also have a pending Initial Income Tax Credit Certificate.

Table 4

Applications Approved and Enrolled as Qualified Business Entities as of July 31, 2020	
Enrollment Applications Approved but no Initial Income Tax Credit Issued	25
By Tier	
Tier 1	16
Tier 2	9
New versus Existing	
New (Tier 1)	5
Existing	20
Tier 1	11
Tier 2	9
Projected Jobs, Wages, Credits (Year 1 = FY2021)	
Projected Year 1 New Jobs	348
Projected Year 1 Wages	\$ 14,519,749
Projected Year 1 Credits	\$ 829,312
Projected New Jobs Through FY2025	996
Projected Total Credits in FY2025	\$ 2,387,653

Pending Applications

In addition to the 43 projects which have received Final Certificates or Initial Certificates, and the 25 projects approved and enrolled as Qualified Business Entities, there are 16 projects for which the enrollment application was received but have not been approved as of July 31, 2020. These pending applications are missing information or are otherwise incomplete. Commerce continues to work with these 16 projects towards enrollment as Qualified Business Entities. Table 5 below shows the projections for these projects.

Table 5

Pending Enrollment Applications as of July 31, 2020	
Total Applications Pending	16
By Tier	
Tier 1	10
Tier 2	6
New versus Existing	
New (Tier 2)	1
Existing	15
Tier 1	10
Tier 2	5
Projected Jobs, Wages, Credits (Year 1 = FY2021)	
Projected Year 1 New Jobs	185
Projected Year 1 Wages	\$ 9,310,575
Projected Year 1 Credits	\$ 535,358
Projected New Jobs Through FY2025	418
Projected Total Credits in FY2025	\$ 1,324,320

We did not calculate the value of potential credits for the 130 projects still at the Notice of Intent step of the program. Some of these projects will eventually submit an application, be enrolled in the program and be awarded a certificate, thereby figuring into the demand for credits over the next five years. Some of the projects project significant job creation and wage estimates but are still in early stages of development and it is therefore too soon to project the value of potential credits.

Table 6 below summarizes the estimated income tax credits from the above tables. The demand for the credit is based on the projected number of new jobs and associated wages over the first five years in the program for the 84 projects at the application or certificate steps of the program. The projections do not include businesses which have submitted a Notice of Intent but have not progressed any further in the process.

Table 6

Projected Demand by Year the Credit is Claimed – FY2021 to FY2025						
Stage	Number	FY2021	FY2022	FY2023	FY2024	FY2025
Final Income Tax Certificates	17	\$2,408,519	\$6,913,756	\$7,286,498	\$7,772,301	\$7,846,313
Initial Income Tax Certificates Approved	26	\$2,395,301	\$5,350,077	\$7,760,056	\$9,665,215	\$10,600,122
Enrollment Applications Approved but no Initial Income Tax Credit Application	25	\$829,312	\$1,506,393	\$1,939,776	\$2,167,961	\$2,387,653
Pending Enrollment Applications	16	\$535,358	\$849,725	\$1,038,060	\$1,273,812	\$1,324,320
TOTAL	84	\$6,168,491	\$14,619,952	\$18,024,391	\$20,879,289	\$22,158,407

In addition to assessing demand as expressed by Final Certificates, Initial Certificates, and Enrollment Applications, Commerce reviewed its recent activities with both in-state manufacturers considering expansion and out-of-state manufacturing “prospects” considering a location in Maryland. One hundred eleven (111) projects involving manufacturers were identified as potential applicants to the program as of July 31, 2020. While some of these projects will not come to fruition, these companies serve as a working “pipeline” list to gauge future demand for the tax credit.

These 111 projects represent 10,131 new jobs – a greater number of new jobs than are already in the program. Thirty-two (32) of these projects represent 100 or more new jobs each, with a total of 8,252 new jobs.

When a project reaches a certain point in the site location process it is normal for Commerce to provide a Statement of Capabilities letter which outlines potential financial incentives for the project. As the business considers its potential investment in a Maryland facility it does so with an expectation that the MJM tax credits based on the number of new jobs will be budgeted and available for the full ten-year period.

Estimated FY2022 Demand

Final Income Tax Certificates approved and pending (17)	\$6,913,765
Initial Income Tax Certificates approved (26)	\$5,350,077
Enrollment Applications Approved (25)	\$1,506,393
Enrollment Applications Pending (16)	\$ 849,725
Total	\$14,619,952

Appropriations and Expenditures

Year	Appropriation	Expenditures
FY2019	\$9 million	-
FY2020	\$7 million	\$633,785
FY2021	\$2 million	\$4,803,820
Total	\$18 million	\$5,437,605

Note: FY2021 estimate includes only the 43 projects that are Final approved and pending plus Initial approved.

Commerce is projecting that the Department will need an additional \$2 million in the More Jobs for Marylanders Income Tax Credit Reserve Fund for Fiscal Year 2022. There is currently a balance of \$2M in the Sales and Use Tax Refund Reserve Fund which Commerce will transfer over to the Income Tax Credit Reserve Fund as permitted in statute in order to cover demand for FY22. Therefore, no appropriation is necessary in FY22.

Commerce is aware of the budget difficulties the State is facing now and in future fiscal years. Keeping that in mind, the Department is not requesting an appropriation as the transfer from the Sales and Use Tax Refund Reserve Fund in addition to the existing fund balance will cover the projected demand for FY22. This amount represents known projects that are currently in the application process and is therefore a more exact representation of demand in FY22. It also does not include any additional funds to keep in reserve for either an increase in demand or for future years.

Commerce would like to note that the current projected demand for FY23 is over \$18M and that does not include projects in Commerce’s “pipeline” which are expected to be eligible for credits beginning in FY23. The current FY23 projection, as with the FY22 projection, only includes projects currently in the application process and that amount is likely to increase in the months and years to come. As the Department’s decision to not request an additional appropriation for FY22 will likely result in a fund balance at or near zero by the close of FY22 it should be anticipated that Commerce’s request included in this report next year will be significantly higher than previous years. The Department is mindful of fiscal constraints, but is submitting this year’s report with the hope and expectation that the program will be funded in the years to follow.