

More Jobs for Marylanders Tax Credit Reserve Fund

ANNUAL REPORT

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

Submitted by:

Maryland Department of Commerce

August 2021

More Jobs for Marylanders Tax Credit Reserve Fund

INTRODUCTION

Maryland is home to over 109,000 manufacturing jobs and growing. They work in traditional and high-tech sectors throughout the State, and produce a range of exportable products including metals and minerals, machinery and equipment, food and beverage, pharmaceutical and medicine, and aerospace and electronics. These products account for \$25.4 billion of the State's total gross product, and the average employee makes well over \$87,000 per year.

The growth of manufacturing jobs in the State is made possible by effective incentives such as the More Jobs for Marylanders Program (Program). As this report will show, this Program has attracted nearly 300 projects and created over 400 qualified positions as of the date of this report. These positions are full-time, make an average wage of at least \$70,000 per year, and receive ongoing job training and/or post-secondary tuition reimbursement.

In addition to growing manufacturing jobs, this Program also supports the creation of non-manufacturing jobs in federal Opportunity Zones where the annual wage must be at least \$50,000 per year.

OVERVIEW

Chapter 149, Acts of 2017, established the 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 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 June 30, 2021 Commerce has received 293 NOIs.

As of June 30, 2021, Commerce has received 119 enrollment applications from companies representing 9,161 new jobs through FY2026.

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 2021 ACTIVITY

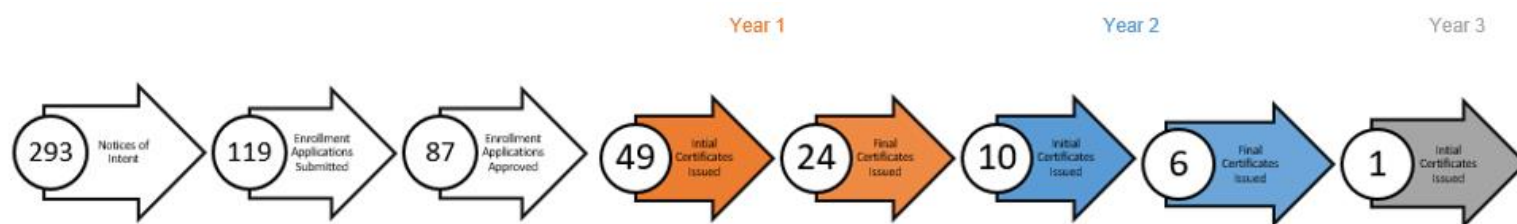
Commerce has received Notices of Intent (NOI) from companies representing 293 projects interested in applying for the More Jobs for Marylanders' tax credits. As of June 30, 2021, 119 of the 293 projects have submitted applications to enroll in the program. Commerce has enrolled and certified 87 of these 119 projects as Qualified Business Entities eligible to apply for the available incentives. The applications from the remaining 32 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.

Once enrolled, the project is eligible for available incentive for a ten-year consecutive benefit period. For the year 1 benefits, Commerce has issued Initial Tax Credit Certificates to 49 of the 87 projects with two additional Initial Tax Credit Certificates pending, and of these 49 projects, Commerce has issued Final Tax Credit Certificates for 24 projects with 3 Final Tax Credit

Certificates pending. For year 2 benefits, Commerce has issued Initial Tax Credit Certificates to 10 projects with one additional Initial Tax Credit Certificate pending. Of the 10 projects, Commerce has issued Final Tax Credit Certificates for 6 projects.

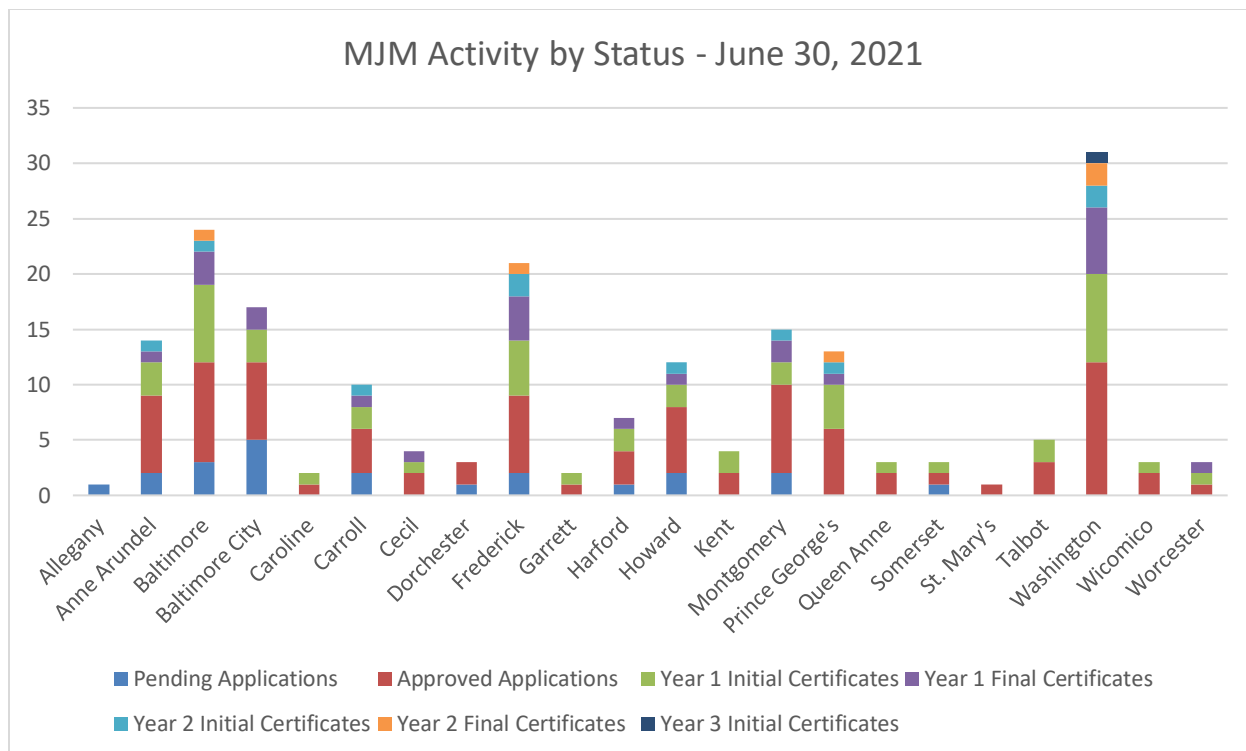
The remaining 173 companies that submitted a Notice of Intent have not subsequently submitted applications. While these 173 companies may eventually submit an application, they are not factored into the projected demand for the credit for the purposes of this report. Commerce has and will continue to reach out to those companies to gauge ongoing interest in the Program and to assist with the application process.

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



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 87 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

FY2021 was the first year of the program when approved projects significantly advanced through the application process. As of June 30, 2021, Commerce issued a total of 29 Final Certificates for 24 projects. This represents a 163% increase in the number of Final Certificates compared to the end of FY 2020, when 11 Final Certificates had been issued. Data for Jobs, Wages and Credits in Table 1 below reflects actual performance for the 24 projects with Final Certificates.

Table 1

Final Income Tax Credit Certificates as of June 30, 2021			
Issued Final Certificates			
By Tier	Year 1	Year 2	Total
Tier 1	14	4	18
Tier 2	10	1	11
New versus Existing			
New (Tier 1)	2	2	4
Existing	22	3	25
Tier 1	12	2	14
Tier 2	10	1	11
Jobs, Wages, Credits through June 30, 2021			
Number of Qualified Positions Created			414

Aggregate Wage of Qualified Positions Created	\$29,341,497
Aggregated Reserved Tax Credit	\$2,103,867
Projected New Jobs Through FY2026	4,085
Projected Total Wages In FY2026	\$295,591,950
Projected Total Credits In FY2026	\$16,996,537
Projected Total Wages Through FY2026	\$1,181,530,361
Projected Total Credits Through FY2026	\$67,937,996

Going into FY2022, the 24 projects with Final Certificates issued will be in their second or third year of participation in the MJM program. Three of the 24 projects have applied to receive their year 2 Final Certificate as well as three new projects applying for their year 1 Final Certificate. Table 2 summarizes the projected demand for the 27 projects with issued or pending final certificates.

Table 2

Final Income Tax Credit Certificates as of June 30, 2021			
Issued and Pending Final Certificates			
By Tier	Year 1	Year 2	Total
Tier 1	16	5	21
Tier 2	11	6	17
New versus Existing			
New (Tier 1)	3	2	5
Existing	24	9	33
Tier 1	13	5	18
Tier 2	11	4	15
Jobs, Wages, Credits			
Projected Number of Qualified Positions Created	523		
Projected Aggregate Wage of Qualified Positions Created	\$40,557,841		
Reserved Tax Credit	\$4,270,933		
Projected New Jobs Through FY2026	4,705		
Projected Total Wages In FY2026	\$376,131,874		
Projected Total Credits In FY2026	\$21,627,582		
Projected Total Wages Through FY2026	\$1,481,939,915		
Projected Total Credits Through FY2026	\$86,209,115		

Initial Certificates

There are 21 projects which have been issued Initial Income Tax Credit Certificates for year 1, 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 FY2022.

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 estimated to create 22 new jobs. This business is one of the 21 projects to have been issued an Initial Income Tax Credit Certificate.

Table 3

Initial Income Tax Credit Certificates as of June 30, 2021	
Total Initial Certificates Issued (but not a Final Certificate Issued or Pending)	21
By Tier	
Tier 1	14
Tier 2	7
New versus Existing	
New (Tier 1)	0
Existing	
Tier 1	14
Tier 2	7
Projected Jobs, Wages, Credits	
Projected Year 1 New Jobs	369
Projected Year 1 Wages	\$23,312,377
Reserved Year 1 Credits	\$1,340,462
Projected New Jobs Through FY2026	1,427
Projected Total Wages through FY2026	\$380,147,957
Projected Total Credits through FY2026	\$21,858,508

Applications Approved and Enrolled as Qualified Business Entities.

There are 35 projects for which applications have been approved and are enrolled in the program as Qualified Business Entities. Two of these 35 projects also have a pending Initial Income Tax Credit Certificate.

Table 4

Applications Approved and Enrolled as Qualified Business Entities as of June 30, 2021	
Enrollment Applications Approved but no Initial Income Tax Credit Issued	35
By Tier	
Tier 1	15
Tier 2	20
New versus Existing	
New (Tier 1)	4
Existing	31
Tier 1	11
Tier 2	20
Projected Jobs, Wages, Credits (Year 1 = FY2022)	
Projected Year 1 New Jobs	665
Projected Year 1 Wages	\$53,611,347
Projected Year 1 Credits	\$3,082,652
Projected New Jobs Through FY2026	2,214
Projected Total Credits Through FY2026	\$47,636,060

Pending Applications

In addition to the 45 projects which have received Final Certificates or Initial Certificates, and the 35 projects approved and enrolled as Qualified Business Entities, there are 18 projects for which the enrollment application was received but have not been approved as of June 30, 2021. These pending applications are missing information or are otherwise incomplete. Commerce continues to work with these 18 projects towards enrollment as Qualified Business Entities. Table 5 below shows the projections for these projects.

Table 5

Pending Enrollment Applications as of June 30, 2021	
Total Applications Pending	18
By Tier	
Tier 1	10
Tier 2	8
New versus Existing	
New (Tier 1)	1
Existing	15
Tier 1	9
Tier 2	6
Projected Jobs, Wages, Credits (Year 1 = FY2022)	
Projected Year 1 New Jobs	300
Projected Year 1 Wages	\$14,591,020
Projected Year 1 Credits	\$838,984
Projected New Jobs Through FY2026	729
Projected Total Credits in FY2026	\$8,833,794

We did not calculate the value of potential credits for the 173 projects still at the Notice of Intent step of the program. Some of these projects will eventually submit an enrollment application, received approval to enroll in the program and receive 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 98 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 – FY2022 to FY2026						
Stage	Number	FY2022	FY2023	FY2024	FY2025	FY2026
Initial and Final Income Tax Certificates ⁱ	45	\$15,535,605	\$20,424,207	\$23,440,498	\$27,399,697	\$27,852,365
Enrollment Applications Approved but no Initial Income Tax Credit Application	34	\$9,446,311	\$8,294,778	\$9,928,366	\$11,099,273	\$11,878,111
Pending Enrollment Applications	18	\$2,189,615	\$1,602,836	\$1,880,319	\$1,977,779	\$2,022,229
TOTAL	102	\$27,171,531	\$30,321,821	\$35,249,183	\$40,476,749	\$41,752,705

In addition to assessing demand as expressed by Final and 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. Thirty-four (34) projects involving manufacturers were identified as potential applicants to the program as of July 1, 2021. 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 34 projects represent a total of 8,666 new jobs.

- Nine (9) of these projects were actively assisted by Commerce staff and have been validated as viable projects that will proceed by the Commerce Managers of Performance Measures. These nine projects represent a total of 505 new jobs, with the projects ranging from five to 200 new jobs.
- Twenty-five (25) of the projects are part of the Commerce “pipeline” which means they are not yet committed to undertaking the project in Maryland. These 25 projects represent a total of 8,161 new jobs. Only projects representing at least 50 new jobs were captured and analyzed for this estimate. Additional pipeline projects of between 5 and 49 jobs were not reviewed.

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.

Appropriations and Expenditures

Year	Appropriation	Encumbered	Expenditures
FY2019	\$9 million	\$1,580,649	-
FY2020	\$7 million	\$1,814,686	\$633,785
FY2021	\$2 million	\$7,178,324	\$1,647,918
FY2022	\$2 million	-	-
Total	\$20 million	\$10,573,659	\$2,281,703

Note: Encumbered funds represent the amount of tax credit reserved on behalf of qualified business entities on Initial Certificates issued in the fiscal year. Expenditures represent the amount of tax credits stated on the Initial Certificate that was transferred from the More Jobs for Marylanders Income Tax Credit Reserve Fund to the General Fund when the Final Certificates was issued in the fiscal year.

As indicated in last year’s Reserve Fund Report, Commerce would again like to note that it is expected that the fund balance will likely be at or near zero by the close of Fiscal Year 2022 due to the rapid progression of the 45 projects that have received Initial and Final Certificates. Many of these companies are already in their second or third year of program participation, and it is estimated an additional \$6.1 million will be encumbered on their behalf by the fall of 2021.

Commerce is projecting that the Department will need an additional \$30 million in the More Jobs for Marylanders Income Tax Credit Reserve Fund for Fiscal Year 2023. This funding request is consistent with the 2020 Reserve Fund Report that stated the Fiscal Year 2023 funding request will be significantly higher than previous years. The current projected demand does not include projects in Commerce’s “pipeline” or any of the 173 companies that have submitted notices of intent only. The anticipated enrollment sunset of June 1, 2022 will likely cause those companies to advance in the application process by the end of Fiscal Year 2022.

There is currently a balance of \$2 million in the Sales and Use Tax Refund Reserve Fund, and no appropriation is necessary for FY22. There are several projects in Commerce’s “pipeline” that have expressed interest utilizing the sales and use tax refund benefit.

¹ In the FY20 funding report, Table 6 separately showed “Final Income Tax Certificates” and “Initial Income Tax Certificates Approved.” It was combined in this report because the Initial Income Tax Credit Certificate reserves the company’s tax credit and thereby represents encumbered funds which must be transferred from the MJM Reserve Fund to the General Fund when a Final Certificate is issued, regardless of tax credit amount stated on the Final Certificate. This is pursuant to Tax-General Article 10-741(d)(4)(ii)(2) which provides: “on notification that a final credit amount has been certified, the Comptroller shall transfer an amount equal to the credit amount stated in the initial tax credit certificate for the qualified business entity from the Reserve Fund to the General Fund.”