

Maryland Business Tax Reform Commission
Business Incentive in the Tax Code Subcommittee

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Chairman Wacks and members of the subcommittee ...

Greater Baltimore Committee

- Mission – to improve the business climate of the Greater Baltimore region by organizing its corporate and civic leadership to develop solutions to the problems that affect the region’s competitiveness and viability.

From my previous experience in Annapolis and as head of the Greater Baltimore Committee – I have heard arguments pro & con about tax credits for close to 20 years.

The GBC’s legislative agenda consistently urges either an expansion of existing tax credits or the creation of new tax credits.

We have strongly advocated for: job creation tax credits, research & development tax credits, bioscience tax credits, & the heritage structure tax credit.

In recent years, we have suggested tax credits to attract or retain teachers who are hired in fields of science, technology, & mathematics because we recognize the importance of a building a strong workforce with knowledge in those fields if Maryland is to compete in the rapidly emerging knowledge based economy.

The GBC is not engaged in the “hand to hand combat” of attracting, retaining, or expanding existing businesses in the state as the previous speakers on this panel.

Our engagement – as you heard from our mission - focuses on advocating for what makes a difference to business and what are the appropriate policies our state should take to grow the State’s economic and job base and keep us competitive.

I recognize that some who oppose business tax incentives do so out of a belief that state tax dollars should not support “for profit” operations – some suggest it is a form of corporate greed or corporate welfare.

They believe that businesses should or will locate or expand based on the merits of the state's assets such as its strong workforce or its ideal location or a superb transportation network and not because the state is dangling financial or tax incentives.

In an ideal world that philosophical bent might be warranted but in the rough and tumble world of economic development – or as described by earlier panelist Vernon Thompson – a full contact sport – that is living in Fantasyland.

- I also understand that many lawmakers – faced with the daunting task of balancing a budget in a short period of time – are tempted to view tax credits and other business incentives as simply a cost to be either grudgingly tolerated or eliminated from the State's budget. In these tough budgetary times, I know that these become attractive targets.
- But in tough economic times, business incentives are not a luxury. They are a critical tool to better position Maryland for business growth on the other side of the recession.

Maryland struggles to overcome a reputation – earned or perceived – of being a state that is not as open to business as many of its competitors.

Maryland suffers from a perception – real or imagined – that it doesn't understand or doesn't appreciate business or the role that business plays in the economic growth of the State.

The time has come to move beyond those images and to demonstrate that Maryland does recognize that a fundamental purpose of government is to create an environment that is conducive for its citizens to be gainfully employed and to enable them to provide for their personal and family's well being.

Although our state has a strong government employment base, the overwhelming number of job opportunities are created by the private sector and not government.

To achieve job growth it is important for our state to provide measures to ensure that the State of Maryland “makes the cut” to be considered as a viable state to locate a new business or to stay and grow an existing Maryland business. If you ask the economic professionals or the corporate/business site selectors they will tell you that all too often Maryland lands on the cutting room floor.

- Business incentives or tax incentives are an essential component that helps the state get to the point where a company will weigh the state's many business-related strengths
 - location
 - highly educated workforce
 - lower cost of living in many locations

- major federal government presence – huge attraction to government contractors
- very high quality of life

Those are compelling assets but they are only compelling to business executives if our state provides a competitive opportunity for its company to succeed.

- Maryland’s main competitive challenges are more regional than national.
 - for example, Maryland ranks in the middle for many measures of state business competitiveness. but a key issue is our primary competitors located next door – Virginia, Pennsylvania, North Carolina are all very aggressive development competitor.
 - Often they rank ahead of Maryland in business surveys.
 - Virginia ranks significantly ahead of Maryland for overall business taxes.
 - **However, business tax credits and incentives can be a very effective tool for Maryland in addressing and overcoming Virginia’s more favorable overall tax advantage.**

- Comparisons with competing states are useful. But what’s most important, and pertinent to this Commission, is what incentives work.
 - What incentives are particularly useful to CEOs and owners as tools to nurture their businesses’ development and growth?
 - If incentives nurture business growth – and job growth – they convert a state’s investment into economic growth.
 - Two examples:
 - Bioscience and R&D tax credits.
 - Heritage tax credit for renovating historic buildings.

As you evaluate business incentives and their importance, I would urge you to keep the following points in mind:

- 1) The current justification for incentives fall into one of four purposes:
 - a. Encourage job creation
 - b. Revitalize communities
 - c. Secure capital investment, &
 - d. Promote industry growth

I submit to you that these are appropriate.

- 2) Despite the fact that Maryland has enacted business incentives over the years quite honestly our state is not recognized as one that has ever highly invested in that area. The charts presented at your last meeting demonstrate that the tax credits comprise a very small portion of the General Fund budget.

- 3) Recognizing the limited resources budgeted, are we using the business incentives that most effectively leverage long term economic growth? Are you investing the state's assets in a fashion that meets our economic development strategy and are we investing enough that it will make a difference and generate a good return on the investment?
- 4) Maryland needs a wide range of business incentives because the character of our state is so diverse. Although a small state by geographic standards we have 2 metropolitan areas that are becoming one each and every day. The needs in those jurisdictions differ from the Eastern Shore or Western Maryland. At no place in the state of Maryland are you more than 45 minutes from another state that we are not somehow competing.
- 5) Our highly educated workforce places us in a position to be a state that can benefit from emerging industries such as bioscience. But those emerging businesses are just that – emerging – they need help to survive. The little extra that can be provided makes the difference of whether we are just making discoveries in Maryland or are we producing business and jobs from those discoveries.
- 6) Business incentives are just part of the bigger picture of having a strong business platform. Many other factors are involved such as a solid business tax policy that works for the entire state and a regulatory system that is seen as fair, equitable, and predictable.

Every hour of every working day business executives are faced with not only producing a quality product or service, dealing with rapidly changing technologies that can make or break their companies, an expanding global – not domestic – competition, but also with meeting increasing expectations and results oriented goals of boards of directors and shareholders.

To adequately do that they need to maximize their resources and reduce their expenses – that's the bottom line.

Those demands drive their decisions of where to do business. That's why business incentives are a vital piece of the puzzle in keeping Maryland competitive.

Thank you.