

**Maryland Business Tax Reform Commission
Business Incentives in Tax Code Subcommittee
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**Testimony of
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Chairman Wacks and Members of the Subcommittee, thank you for the opportunity to address the Business Incentives in the Tax Code Subcommittee of the Maryland Business Tax Reform Commission. I would like to address the effectiveness of tax credits in Baltimore City and request further exploration of new economic incentives that address the retention of businesses in this economic downturn.

I would argue that Baltimore City is one of the jurisdictions in the State in which tax credits do the most good and have the greatest impact on business. First, I am going to give you some statistics on how tax credits, be they Enterprise Zone, Brownfields, Historic tax credits or One Maryland, have impacted Baltimore City positively. Then, I'm going to address the question of what more is needed.

Effectiveness of Enterprise Zone Tax Credits:

The BDC recently conducted a survey of all Enterprise Zone certified companies since 1985.

- When we asked these businesses owners if they would have made the improvements to their businesses without the Enterprise zone credits, an overwhelming 60% of businesses surveyed said they would not have made the improvements “but for” the Enterprise Zone credits.
- What does this mean in real numbers? According to the capital project investment since 2000, this would mean that \$849.6 million dollars (60% of EZ projects) would not have been invested in Baltimore City “but for” the Enterprise Zone taxes.
- By the way, only 22% said that they would have made the improvements without the Enterprise Zone tax credits (the rest were unsure).
- **Jobs:** Since 2000, the Enterprise Zone credits have helped to create over 12,275 new jobs for Baltimore City and the State of Maryland.

- **New construction:** Since 2000, the Enterprise Zone credits have contributed to assisting create approximately \$663 million dollars in new construction in the City of Baltimore.
- **Rehabilitation:** Since 2000, the Enterprise Zone credits have contributed around \$305 million in rehabilitation of existing buildings.
- **Purchasing Building and Land:** Since 2000, EZ businesses have spent over \$448 million for building and land.
- **Equipment Purchases:** Since 2000, EZ businesses have spent \$179 million in equipment. (That's at least \$10 million in personal property taxes that have come into the city's coffers from Enterprise Zone tax Credit certified businesses alone).

WBE/MBE: Over a quarter of all businesses since we have been keeping track of EZ certifications are WBE/MBE businesses.

Recent EZ Figures:

- For the 2007/ 2008 tax year, businesses saved over \$14 million in real property taxes in Baltimore City through the Enterprise Zone credit.
- So... what have we gained? Yes, \$14 million may appear to be a large loss of revenue to the City and State, but the total capital investment among EZ certified companies in the last three years totaled over \$1.1 billion.
- In the last three years alone, the EZ has created 2400 new jobs and retained 2,900 jobs for a total job figure of 5,440.

Effectiveness of CHAP Credits:

- For the first six months of 2009, 62 projects applied for and received the Historic Tax Credits, bringing over \$17 million worth of re-investment in the City of Baltimore's oldest, most significant properties.
- Since 1996, when the credit began, the Historic Tax Credits have lead to the development of over \$416 million in capital investment in Baltimore's historic districts.

Effectiveness of Brownfields Tax Credits:

- Since 2007 alone, Brownfields Tax credits have made over \$55 million in capital expenditures possible in vacant, underutilized industrial land in Southeast Baltimore and created over 200 new jobs.

One Maryland in Baltimore City:

According to DBED...

- Baltimore City is one of seven jurisdictions in Maryland eligible to receive the One Maryland Tax Credits.
- To date, the One Maryland tax credit in Baltimore City has brought in at least 1,598 net new jobs to Baltimore,
- That figure is 70% of the total jobs created in Maryland through the One Maryland Program.
- Over 26 Baltimore City companies have been certified in the One Maryland Tax Credit since 2002.

Personal Property Tax Exemption for Manufacturers:

- Although this is not one of the tax credits mentioned here today, I think it's important to note that Baltimore City is taking advantage of the State's personal property tax exemption on manufacturing equipment in Baltimore City.
- Over 545 companies that manufacture or are involved in Research and Development took the 100% exemption in 2008.
- Manufacturing in Baltimore City is obviously alive and well, in part, the BDC believes, because of the personal property tax exemption on equipment.

Improving the "mix" of Incentives:

Chairman Wacks, you asked the question: "do we have the best mix of tax incentives to be competitive in our region?" I would argue that increasingly at the Baltimore Development Corporation, we are seeing a need for incentives that address the retention of businesses.

Businesses are asking us: "why should I stay in Baltimore?" They are not hiring new employees, they are not making new improvements, many of them do not even pay Maryland income taxes. (for example: they are LLCs).

The BDC conducts regular outreach meetings with existing businesses and meets with companies who are looking for a new home or are considering a move to Baltimore. The following suggestions are based on our staff's outreach meetings and what we are hearing from businesses. We would ask that you consider the following creative ideas to incentivize commerce in the State of Maryland:

- A toll reduction for Maryland companies or Maryland based trucking companies- the more times you use the tolls, the less the toll is.
- Provide a Harbor Maintenance Tax Credit for imports to the Port of Baltimore. The Port of Boston has a dollar-for-dollar State tax credit on the Harbor Maintenance Fees importers pay to the Federal Government.
- Reduce critical areas or permitting fees in Smart Growth areas like Baltimore.
- Fully fund the Green Building Tax Credit again (currently, there are no funds available for this tax credit).
- Create additional incentives for businesses locating in the BRAC zones.

Lastly, the Employment Tax Credits may not go far enough:

- The Baltimore Development Corporation has observed that the Job Creation Tax Credit and the Enterprise Zone employment tax credits do not go far enough to incentivize businesses to create new jobs.
- In our Enterprise Zone survey, only 9% of businesses claimed to have hired new employees “but for” the Enterprise Zone Employment Tax credit.
- We believe a flat pay-out of this amount may work to incentivize businesses to employ more people.
- **In addition, the BDC suggests the reduction of unemployment insurance for companies that retain employees. We are hearing a lot about the recent increase in unemployment insurance from our companies for those who have 50 or more employees-especially those who have been able to keep up their employment levels despite the economy.**

Conclusion:

Thank you again for the opportunity to address the Commission. As you can see, the existing tax incentives have had an incredible impact on the economic development of Baltimore City. If the Commission and the State begin to take a look at incentives for the retention of businesses in the State of Maryland, we would be ahead of our competitors in the mid-Atlantic region and more able to address the concerns of our businesses today.