Maryland Business Tax Reform Commission

Business Incentives in the Tax Code Subcommittee

December 3, 2009

Presentation by Vernon Thompson, Director,
Cecil County Economic Development

Chairman Wacks, and Members of the Subcommittee, thank you for the opportunity to speak today about the impact of business incentives on economic development activities. I am the Director of Economic Development for Cecil County and prior to that, I served as Deputy Secretary and as Assistant Secretary for Regional Development at DBED. I have been involved with economic development and specifically involved in negotiating State assistance with companies making location and expansion decisions and with site consultants for more than 20 years.

I would like to share with you my experience marketing a county that borders another State, as well as my observations working at the State level and understanding the unique needs of each of Maryland's regions.

Economic Development has been called a "full contact sport" with justification

If you intend to be competitive for good paying jobs and capital investment from startups, relocations or expansions, you must have the necessary equipment. A favorable business environment, desirable location, transportation assets, competitive power rates, excellent educational system and a well-trained labor force are many of the prerequisites to play the game. Winning often involves more.

Cecil County has relied heavily on tax credit incentives for attraction and revitalization

In Cecil, we have 3500 acres designated as Enterprise Zones which span our growth corridor between Rt. 40 and I-95 from the Delaware line to the Susquehanna River. These Zones were established in December 1997. As of this month we have 21 companies claiming an EZ credit (10 warehouses, 6 manufacturers, 3 office buildings and 1 daycare facility with 1620 total jobs). Capital investment in these Zones total $252.5M. We also make extensive use of the Job Creation Tax Credit. We were briefly eligible in 2004 as a One Maryland jurisdiction during which one company was certified. These general, statutory tax credits obviously help. It would be ideal to have more surgical tools.

Regions don't benefit from a cookie cutter approach

Economic development efforts in this State cannot be executed in a cookie cutter approach. What works in Howard County, is different from what works in Somerset County and differs greatly from what works in Southern Maryland and the Capital region or Western MD.

I've reviewed this Subcommittee's work plan to investigate incentives and I note that you are interested in teasing out whether incentives should be targeted only to certain industries or on a regional basis or other criteria. I offer this: if you had all 24 economic development directors here today you will get 24 different opinions on the tax incentives the State should offer to encourage business development – job creation, capital investment, revitalization and targeted industry sector growth. Each person would tell you a different level/amount of incentive, different parameters (job creation minimums, specific industry targets, capital investment levels). This is and remains a complex equation with multiple variables.

I believe we all agree, given limited State resources, we cannot be all things to all people. It is not logical or fiscally prudent to have an economic development incentive program for every specific business need/industry. However, what the State should focus on is its core strengths, recognizing these strengths differ depending on the region you are in. And yes, we know our State's economy is driven by the presence of the federal government and federal contracting; it is driven by the premier medical research institutions, higher education activities and the tourism and cultural assets. BUT, we cannot ignore our business base – those companies/firms who have been steadily operating in Maryland, providing jobs and don't fall in the industry sectors du-jour.

We have great manufacturing, agri-business, equine and financial sector stories to tell. They are not just a part of our history but are a critical component of our future.

The Site Selection “hardball” game

Companies in the most desirable industry sectors, i.e. clean, technology focused, paying good wages, can go anywhere and do their work. They often hire professional site location firms to evaluate real estate, development process, state and local assets, business tax codes and incentive programs. The company outlines their needs and parameters are developed to guide the site location process. Often, in national searches, states and locals go through an intensive and exhaustive RFP process with multiple interviews and site visits. A short list is developed and final sites for consideration are identified. This can take weeks, months or years.

But how do companies make a decision when everyone is so professional, so responsive, so progressive, so equal? Cash often makes the judgment call. In today’s tight financial market an early qualifier is how much the state and counties are willing to lower the up-front cash requirements of the company, i.e. free land, free building or assist with cost avoidance, or i.e. waiver of fees, subsidized labor or tax abatements.

I know that questions arose at the last meeting regarding site consultants and the playing of regions/states against one another to get the largest incentive package. Is it a “hardball” process? You bet! It is however, the fiduciary responsibility of companies to find the best deal possible; the best environment in which to do business. It’s hardball because it’s all about money and the game is not likely to change.

Complacency is not a strategy for job creation

Most are offended at having to engage in the incentives competition. We all pay taxes and would rather see the money support other things. The problem is without a uniform, federally led “cease fire”, state tax dollars supporting incentives remain a critical component of business attraction. Maryland has nearly eliminated its discretionary loan and grant making capability. Workforce training incentive programs, once a tool of choice due to their direct investment in the skills of Maryland workers have been abandoned. We are here today to discuss the fate of tax credits.

Withdrawing from the competition is not a strategy being contemplated by our competitor states

North Carolina maintains a capacity to give away land to prized life science prospects. Virginia manages to make large cash incentives materialize during the final site negotiations. A scan of current year budget decisions of our competitor states did not give any comfort that they are rolling back their incentives levels.

What are our options going forward?

DBED embarked upon a financing programs consolidation effort 10 years ago where the Department looked at the efficacy of the financing programs on the books. We, and I mean the collective we, in economic development really need do the same type of in-depth analysis of what tax incentives – credits, exemptions we should pursue. Hopefully it won't come to the same end, and that is a consolidation of tools with a severely diminished capacity that has few advocates.

A study of this magnitude is not cheap, but is necessary. Maryland has never done this. I know that Ohio conducted a recent comprehensive study of its tax incentives and it cost $50,000.

Perhaps we start with a clean slate and design a set of incentives tools based on our diverse needs, and targets. It should reestablish a capacity to upgrade the skills of Maryland workers as a major component of the incentives process, target expanded loan/grant capacities to areas of need and develop tax credit programs that give local jurisdictions the discretion to target industry sectors that are part of their strategic plans. Regardless of whether we retool or create a new set of tools we must prepare to reinvest in our competitiveness at our earliest opportunity.