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Testimony of Thomas Cafcas, Good Jobs First
Before the Maryland Business Tax Reform Commission
Annapolis, Maryland ~ Tuesday, November 9th, 2010

Chairman Wacks and members of the committee, thank you for your invitation to testify today. Good Jobs First is a non-profit, non-partisan research organization dedicated to transparent, accountable, and effective economic development. I track economic development issues in 17 states including Washington, D.C., Maryland, and Virginia. Prior to my work at Good Jobs First, I worked as a private-sector economic development consultant with projects throughout the nation. My testimony will focus on economic development considerations.

Maryland schools are top notch, ranked 1st by *Education Week*. This is primarily because they have dedicated funding through the property tax system. Maryland is one of the few states to protect with legislation school property tax revenues from economic development diversions. This is a good thing. At a time when schools are struggling because property tax revenues have steeply fallen off, we do not think it prudent to jeopardize an important school revenue source. Further, with the state looking to balance the budget, we believe all spending including many economic development subsidies with unclear benefits should come under scrutiny.

It is also important to note that Maryland already has a $26 million program granting property tax credits: Enterprise Zone Property Tax Credits. In FY 2010, 753 companies were granted the 10 year credit. The program has specific targeting language requiring tax credits to only be granted in areas of high-unemployment or poverty. Allowing more counties to award property tax credits may reduce the effectiveness of the existing Enterprise Zone program and could undermine the Smart Growth Priority Funding Areas Act which realigned incentives to areas of need.

Statewide, the projected cost of the Enterprise Zone Property Tax Credit in 2009 was $1.79 per Maryland resident. This figure does not include the costs of local property tax abatement programs. A 2005 study found that Maryland has more property tax abatement programs than any other state in the country. With such high costs, are Marylanders getting bang for their buck in existing programs?

Taxpayers do not know. Maryland does not disclose recipients of Enterprise Zone Property Tax Credits, despite the cost of the program doubling between 2006 and 2010. Worse, this program contains no clawbacks to protect taxpayers if companies fail to meet benchmarks. But this disclosure problem doesn't stop with the Enterprise Zone program. The state does not disclose how much companies were eligible to receive or actually received in Job Creation Tax Credits. The same is true of One Maryland Tax Credits which cost the state $8 million in 2008.

These tax credits tied to corporate income and property taxes add up. Before the recession in 2006, corporate income tax credits cost the state about $25 million per year, or 3% of the total corporate income tax liability (that doesn't include property tax liabilities). Because the state does not collect enough information on form 500CR, it is unclear when those tax credits, some lasting 15 years, will be utilized and cause a sudden drop in state revenue.

Although the state posts annual reports on most subsidies, details on many awards are still missing. To rectify this, the state should focus on disclosing for each and every tax credit and economic development subsidy:

1. The total amount of subsidy a company was eligible for;
2. The total amount of subsidy a company utilized;
3. The benchmarks a subsidized company agreed to;
4. The outcomes in terms of job creation and wages;
5. Whether a clawback occurred to enforce benchmarks.

Some states, including Maryland, claim that disclosure of tax credits releases proprietary data. Let me be clear: we are not asking for corporate balance sheets or proprietary information. We seek disclosure of which companies benefited from public money and by how much. A number of states agree with our conclusion that transparency does not hinder the business climate. Over half the states have online disclosure of tax credit recipients. Three programs in North Carolina disclose both the amount a company was eligible for and actually utilized. Pennsylvania, New Jersey, Missouri, and Kentucky also follow suit. Texas discloses recipients of a large property tax abatement program as well as applications, fiscal impact statements, annual reporting and legal contracts.

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Maryland should take notice of other states. Many states, like Wisconsin and Illinois, have passed blanket laws that require consistent disclosure of tax credit recipients. The Illinois Corporate Transparency Accountability Portal allows taxpayers to search an online database by company or subsidy type. Any subsidy a company receives is posted in the database. Michigan maps the location of MEGA tax credit recipients and discloses all other subsidies made available to that company. StateStat already has this capacity.

Maryland's own Recovery Act transparency website already implements many of our disclosure recommendations, including disclosure of company-specific information for Recovery Act initiatives. We rated it 1st in the nation twice in our Show Us the Stimulus studies. It even mapped spending and compared that spending to metrics of economic need.

We see many opportunities to improve Maryland's economic development system. Marylanders deserve a centralized database disclosing information on how both companies and taxpayers benefit from tax credits. It is also important that economic development programs don't harm existing revenues for important government functions. Expanding authority to counties for more property tax credits is unwarranted given existing programs already cost the state revenue but do not disclose the benefits.

For more information, see our website and publications.

www.goodjobsfirst.org

Protecting Public Education

www.goodjobsfirst.org/pdf/edu.pdf

State of State Disclosure, 2007 (update coming soon!)

http://www.goodjobsfirst.org/pdf/statedisclosure.pdf

Show Us The Stimulus (Again)

http://www.goodjobsfirst.org/pdf/ARRAwebreportjan2010.pdf

Growing Pennsylvania's High-Tech Economy: Choosing Effective Investments

http://www.goodjobsfirst.org/news/article.cfm?id=401

The Ideal Deal: How Local Governments Can Get More for Their Economic Development Dollar

http://www.goodjobsfirst.org/pdf/idealdeal.pdf

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Sample Economic Development Subsidy Disclosure

State	Program	Statute
Wisconsin	Across the board disclosure of all economic development programs, including tax credits. Recipients are reported in a searchable, online database. http://www.commerce.state.wi.us/BD/BD-Act125.html http://legis.wisconsin.gov/2007/data/acts/07Act125.pdf	Public Act 125
Connecticut	Economic development assistance to a business with 25+ full-time employees in the state. For $250,000 or more, annual reporting includes company-specific data on actual jobs created, projected jobs created, number of jobs at initial application, and amount of assistance.	94 PA 231 - §32-450 through 32-457 (2000 statutes)
Illinois	Tax credits and tax exemptions: company-specific information of the type and amount of development assistance, the projected and actual number of jobs created or retained, and the average wages paid by job classification.	Public Act 93-0552
Louisiana	Industrial property tax exemptions: company-specific information including jobs created (both permanent and construction), 10-year value of exemption, company's investment amount, and taxes paid.	Records of the state's tax exemption board
Minnesota	Company-specific information for all deals over $25,000: includes number of jobs, amount of subsidy, hourly wage of each job created (listed in dollar ranges), sum of hourly wages and cost of health insurance broken down by wage level, statement of goals identified in subsidy agreement, date by which job and wage goals will be met, reason for relocating from within in Minnesota if applicable, and list	§116J.994

	of all financial assistance received.	
Minnesota, cont.	On the Web at www.dted.state.mn.us/01x00f.asp, go to "Publications," then "Business and Economic Development," then look in the "General" section for 2000 Business Assistance Report.	
Nebraska	Detailed disclosure of incentives under the Employment and Investment Growth Act (various property, sales, and income tax breaks). The State Tax Commissioner must make an annual report to Legislature listing agreements signed that year, agreements still in effect, identity of each taxpayer, and location of each project; and report by industry group with incentives applied for under Employment and Investment Growth Act, refunds allowed, credits earned, credits used for individual and corporate income tax, credits used to obtain sales and use tax refunds, number of jobs created, total employees at reporting dates, capital investment, wage levels of new jobs, tax credits outstanding, and value of personal property exempted in each county.	Employment and Investment Growth Act: §§77-4101 – 77-4112). Reporting requirement: §77-4110.
Nebraska (cont.)	Aggregated disclosure: For incentives under the Employment Expansion and Investment Incentive Act, the State Tax Commissioner must prepare a report identifying the amount of investment, number of equivalent jobs created, including amount of credits claimed in aggregate. If companies claiming credits under this act are in an enterprise zone, the Commissioner must report the amount of such companies' investment, number of jobs created, and average hourly wage or average salary of new jobs created in each zone.	Employment Expansion and Investment Incentive Act: §§77-27,187 – 77-27,196. Reporting requirement: §77-27,195.

North Carolina	Starting March 31 2002, the Department of Revenue must publish annual, company-specific disclosure of tax credits for training, research and development, and machinery and equipment. The data is also to be broken down geographically for those three activities by "enterprise tier area," a system the state uses for ranking regions by level of economic need. The Department's data must also show the number of new jobs created in development zones (enterprise zones), and how many of those new jobs went to zone residents.	§105-129.6.(b)