



The Experience and Effect of County-Administered Enterprise Zones

Aron Trombka

Executive Summary

THE EXPERIENCE AND EFFECT OF COUNTY-ADMINISTERED ENTERPRISE ZONES

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The State of Maryland established the enterprise zone program to promote job creation and private investment in designated areas of the State. Montgomery County currently administers State-designated enterprise zones in Wheaton, Long Branch/Takoma Park, and Glenmont. Previously, a State-designated enterprise zone existed in Silver Spring. In addition, the County has established a County-designated enterprise zone in Burtonsville.

State Enterprise Zone Program

A local government may apply to the Secretary of the Maryland Department of Commerce for an enterprise zone designation. The Secretary may designate an area as an enterprise zone upon determination that the area meets the unemployment and poverty criteria established in State law.

Property Tax Credit: Eligible enterprise zone businesses may qualify for a local property tax credit for a period of ten years. For the first five years, the credit equals 80% of the eligible assessment. In years six through ten, the property tax credit decreases by 10% annually. A property continues to receive the tax credit for ten years even after the designation expires. Any business that operated in an enterprise zone during the designation period remains eligible for property tax credits for an additional five years after the expiration of the enterprise zone designation. In 2010, the General Assembly amended State law that requires Montgomery County property owners who claim an enterprise zone property tax credit to make a corresponding reduction in the amount of taxes for which a tenant is contractually liable under the lease agreement. The Maryland State Department of Assessments and Taxation reimburses local governments for 50% of enterprise zone property tax credits.

Income Tax Credits: Eligible businesses receive the General Income Tax Credit, a one-time \$1,000 income tax credit for each qualified new employee filing a newly created position in an enterprise zone. In addition, eligible businesses may receive a three-year Income Tax Credit for Economically Disadvantaged Employees, which provides an income tax credit of \$3,000 in the first year, \$2,000 in the second year, and \$1,000 in the third year for each new economically disadvantaged employee hired.

County Development Impact Tax Exemption: Montgomery County assesses a development impact tax on new residential and commercial buildings and additions to commercial buildings. The County does not levy impact taxes in current or former enterprise zones.

WSSC System Development Charge Waiver: The Washington Suburban Sanitary Commission levies a "system development charge" (SDC) for new water or sewer service. State law allows Montgomery County to offer an SDC exemption for certain water and sewer service applicants, including "revitalization projects." The County Council annually adopts a resolution that includes development in state-designated enterprise zones as a revitalization project and provides for an SDC exemption of up to \$50,000 per project.

Staff in the Department of Economic Development served as the local enterprise zone administrators through the end of Fiscal Year 2016. Beginning in Fiscal Year 2017, staff in the Department of Finance assumed responsibility for the administering the program.

County Enterprise Zone Program

In 2013, the Maryland General Assembly authorized Montgomery County to establish a local property tax credit for businesses that lease property in the Burtonsville area. Later that year, the Council created a property tax credit for certain properties located in the Burtonsville Crossroads Neighborhood Plan area. The County program provides a tax credit for businesses that operates in the Burtonsville Enterprise Zone but do not own the property on which it operates. The Burtonsville Enterprise Zone property tax credit extends for five years and equals 80% of the taxes due on any expansion, renovation or capital improvement made after March 18, 2014 and before January 1, 2020. Last month, the Council approved a bill that allows for a personal property tax credit for eligible businesses in the Burtonsville Enterprise Zone.

Use of the Property Tax Credit

To date, property owners have claimed almost \$21 million in property tax credits combined in the four State-designated and one County-designated enterprise zones administered by Montgomery County. Nearly 80% of tax credits went to businesses located in the now expired Silver Spring Enterprise Zone.

Silver Spring: In Silver Spring, a large and varied group of commercial interests took advantage of enterprise zone property tax credit. The enterprise zone program in Silver Spring was one part of a multi-faceted revitalization effort managed by a County-staffed redevelopment office. In Silver Spring, the enterprise zone program was augmented by other redevelopment initiatives including large-scale investment in public facilities, development of public spaces, economic development grants and loans, creation of an Urban District, development of a transit hub, and a revitalization marketing campaign.

Wheaton: The primary beneficiary of the enterprise zone property tax credit in Wheaton has been the Westfield Shopping Center. Only six other business have claimed a property tax credit during the life of the Wheaton Enterprise Zone.

Long Branch/Takoma Park: Only six businesses in the Long Branch/Takoma Park Enterprise Zone have claimed a property tax credit since 2003. The primary beneficiary of the property tax credit has been a public storage facility that claimed greater than two-thirds of the total credit amount.

Glenmont and Burtonsville: No businesses in the two most recently designated enterprise zones, Glenmont and Burtonsville, have yet to claim a property tax credit.

The County's experience suggests that enterprise zone tax credits alone are not sufficient to induce large private investment. As such, an enterprise zone may have its greatest potential when the designation period occurs in conjunction with other initiatives and after local redevelopment activity has already begun.

Use of the Income Tax Credit

Few businesses in current enterprise zones have claimed an income tax credit. County records only two businesses (both in Long Branch/Takoma Park) located in current enterprise zones have claimed an income tax credit. Businesses in the now expired Silver Spring Enterprise Zone claimed income tax credits for creating 1,375 new jobs between 1996 and 2006. Data does not exist on whether these jobs continued to exist beyond the first year.

Impact Tax Exemption

The County exempts developments in current and former enterprise zones from paying impact taxes. While the State enterprise zone program is intended to benefit commercial (non-residential) development, the impact tax exemption that has primarily benefitted residential developments. To date, the County has granted \$14.4 million in enterprise zone impact tax exemptions; residential developments received 89% of the total dollar value of these exemptions. Developments approved after the expiration of the Silver Spring Enterprise Zone received impact tax waivers totaling \$5.8 million.

System Benefit Charge Waiver

County policy allows for a waiver of up to \$50,000 of WSSC system benefit charges (SDC) for developments in current enterprise zones. Unlike the impact tax exemption, the SDC waiver does not apply to developments in expired enterprise zones. OLO has determined that WSSC, based on guidance from the County Government, has approved more than \$400,000 in system development charge waivers for developments that occurred after expiration of the Silver Spring Enterprise Zone.

Job Creation Data

Enterprise zone job creation data is neither complete nor reliable. The insufficiency of job creation data is a common characteristic for enterprise zones throughout the State of Maryland. Accurate job creation data is difficult to collect for several reasons. First, for leased properties, the property owner or real estate holding company that makes the capital investment and applies for the enterprise zone benefits may lack information about jobs created by the lessee who operates the business on the site. In addition, not all businesses comply with reporting requirements and the County Government does not have staff resources to verify job creation data.

Enterprise Zone Limitations and Challenges

Based on a review of governmental analyses and journal articles, OLO identified the following limitations and challenges encountered by enterprise zone programs in Maryland and throughout the United States.

Uncertain Efficacy: Studies of enterprise zones both in Maryland and elsewhere in the United States have had difficulty quantifying the economic benefits of enterprise zones. In large part, the problem stems from the lack of reliable data regarding enterprise zone job creation. Where more complete data is available, multiple independent studies could not find conclusive, quantifiable evidence that enterprise zones had a positive effect on employment.

Low Levels of Program Participation: In many enterprise zones, only a handful of businesses claim the property tax credit. A recent Department of Legislative Services (DLS) report noted that State and local business taxes do not account for a large enough expense for an enterprise zone tax credit alone to serve as a large incentive for business relocation.

Size of Participating Businesses: Several studies have found that the size of a business affects participation in enterprise zone programs. A report by the U.S. Department of Housing and Urban Development concluded that "larger businesses were far more likely to take advantage of ... tax incentives than their smaller counterparts."

Geographic Dispersion of Benefits: One objective of enterprise zone programs is to provide employment opportunities to economically disadvantaged residents who live in or near the zone. Nonetheless, some studies have determined that enterprise zone tax credits have minimal effect on employment opportunities for nearby residents.

Proliferation of Enterprise Zones and Dilution of Benefits: The number of enterprise zones have proliferated in recent years. Multiple enterprise zones in one region may compete against one another, thus diminishing the potential benefits of designation. Research on economic development programs across the United States has suggested that the proliferation of enterprise zones dilute the effectiveness of incentive packages.

Recommended Discussion Questions

Based on the findings presented above, OLO recommends that the Council consider the following discussion questions when reviewing the future of the enterprise zone program.

1. What outcomes should the County expect from enterprise zones? How should the County/State evaluate the success of the enterprise zone program?
2. Which business types should be the target beneficiaries of the enterprise zone program? What changes in the State or County enterprise zone programs would be necessary to direct benefits to targeted business types?
3. What is the optimal timing for enterprise zone designation? What market and economic conditions should exist prior to designation? What should be the relationship between enterprise zone designation and the planning/zoning process?
4. Should the County concentrate and focus intensive commercial revitalization efforts on one geographic area at one time?
5. How should the County coordinate the enterprise zone program with other Local and State neighborhood level efforts to revitalize aging commercial centers?
6. How does the enterprise zone program fit in to other elements of the County's Comprehensive Economic Strategy? What should be the roles of the Montgomery County Economic Development Corporation, the Department of Finance, and other Executive Branch departments in the management and promotion of the enterprise zone program?
7. What is the policy justification for an enterprise zone impact tax exemption that benefits predominantly residential developments? Should the County continue to offer an impact tax exemption after the expiration of the enterprise zone designation?
8. Is it the Council's policy intent to grant system development charge waivers after the expiration of the enterprise zone designation?

Office of Legislative Oversight Report 2016-10

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TABLE OF CONTENTS

Executive Summary i

1. Authority, Scope, and Organization 1

2. State and County Enterprise Zone Programs 3

3. Silver Spring Enterprise Zone 9

4. Wheaton Enterprise Zone 18

5. Long Branch/Takoma Park Enterprise Zone 26

6. Glenmont Enterprise Zone 32

7. Burtonsville Enterprise Zone 35

8. Enterprise Zone Limitations and Challenges 38

9. Major Report Findings and Recommended Discussion Questions 41

10. Agency Comments 47

CHAPTER 1: AUTHORITY, SCOPE, AND ORGANIZATION

A. Authority

Council Resolution 18-225, *FY 2016 Work Program for the Office of Legislative Oversight*, adopted July 28, 2015.

B. Scope, Purpose, and Methodology

The State of Maryland established an enterprise zone program to promote job creation and private investment in commercial development in designated areas of the State. County and municipal governments administer State-designated enterprise zones. Montgomery County currently administers State-designated enterprise zones in Wheaton, Long Branch/Takoma Park, and Glenmont and the City of Gaithersburg administers one in Olde Towne. Previously, a State-designated enterprise zone existed in Silver Spring. In addition, the County has established a County-designated enterprise zone in Burtonsville.

The County Council directed the Office of Legislative Oversight (OLO) to conduct an evaluation of County-administered enterprise zones. The purpose of this report is to present data regarding the use of different elements of the State- and County-designated enterprise zones and to evaluate the extent to which these programs had an effect on private investment and job creation.

OLO Senior Legislative Analyst Aron Trombka prepared this report with editorial and production assistance from Kelli Robinson. Natalia Carrizosa prepared the maps included in this report.

OLO conducted this study by collecting and analyzing data, meeting with County staff, and reviewing reports prepared by County and State offices.

C. Organization of Report

Chapter 2, State and County Enterprise Zone Programs, summarizes the key provisions of the State and County enterprise zone programs.

Chapter 3, Silver Spring Enterprise Zone, provides details regarding the designation, purpose, and location of the former State-designated Silver Spring Enterprise Zone as well as information about the number and types of businesses that received property tax credits or other benefits.

Chapter 4, Wheaton Enterprise Zone, provides details regarding the designation, purpose, and location of the State-designated Wheaton Enterprise Zone as well as information about the number and types of businesses that received property tax credits or other benefits.

Chapter 5, Long Branch/Takoma Park Enterprise Zone, provides details regarding the designation, purpose, and location of the State-designated Long Branch/Takoma Park Enterprise Zone as well as information about the number and types of businesses that received property tax credits or other benefits.

Chapter 6, Glenmont Enterprise Zone, provides details regarding the designation, purpose, and location of the State-designated Glenmont Enterprise Zone.

Chapter 7, Burtonsville Enterprise Zone, provides details regarding the designation, purpose, and location of the County-designated Burtonsville Enterprise Zone.

Chapter 8, Enterprise Zone Limitations and Challenges, discusses several of the limitations and challenges encountered by enterprise zone programs in Maryland and throughout the United States.

Chapter 9, Major Report Findings and Recommended Discussion Questions, summarizes the major findings of the report and presents OLO's recommended discussion questions related to the future direction of the enterprise zone program.

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CHAPTER 2: STATE AND COUNTY ENTERPRISE ZONE PROGRAMS

This chapter summarizes the key provisions of the State and County enterprise zone programs including the enterprise zone designation process, eligibility requirements, and benefits offered to participating businesses.

A. State Designated Enterprise Zones

In 1982, the Maryland General Assembly approved legislation to establish “enterprise zones” in the State. The program provides tax credits for private sector job creation and business investment in certain designated areas of the State. As stated in the Code of Maryland Regulations, “the objective of the Enterprise Zones Program is to focus local and State resources on the encouragement of economic growth in economically distressed areas and employment of the chronically unemployed in the State.”¹ As detailed below, eligible businesses may receive both income and property tax credits for enterprise zone job creation and capital improvements.

1. Enterprise Zone Designation Process

Maryland State law establishes the statutory requirements for designation of a specified portion of the State as an enterprise zone.² To begin the process, a local government applies to the Secretary of the Maryland Department of Commerce for an enterprise zone designation. The Secretary first must confirm that the proposed enterprise zone is located within a State-designated “priority funding area (PFA).”³ The Secretary may take up to 60 days to review the application to determine whether the proposed enterprise zone conforms to statutory criteria. The Secretary may designate an area as an enterprise zone upon determination that the proposed area satisfies one of the following criteria:

- The average rate of unemployment in the area, or within a reasonable proximity to the area but in the same county, for the most recent 18-month period for which data are available is at least 150% of the greater of the average rate of unemployment in either the State or the United States during that period;
- The population in the area, or within a reasonable proximity to the area but in the same county, qualifies the area as a low-income poverty area;
- At least 70% of the families in the area, or within a reasonable proximity to the area but in the same county, have incomes that are less than 80% of the median family income in the political subdivision that contains the area; or
- The population in the area, or within a reasonable proximity to the area but in the same county, decreased by 10% between the most recent two censuses, and the political subdivision can demonstrate to the Secretary's satisfaction that: (1) chronic abandonment or demolition of property is occurring in the area; or (2) substantial property tax arrearages exist in the area.⁴

¹ Code of Maryland Regulations, 24.05.01.01.

² Code of Maryland, Economic Development Article, Section 5-704.

³ Priority Funding Areas are locations where local governments seek State support for growth-related projects. The 1997 Priority Funding Areas Act designated certain areas as PFAs (including existing municipalities, Baltimore City, and areas inside the Baltimore and Capital beltways) and established criteria for locally designated PFAs. The criteria include permitted density, water and sewer availability, and designation as a growth area in the jurisdiction's comprehensive plan. (Source: *Evaluation of the Enterprise Zone Tax Credit*, Department of Legislative Services Office of Policy Analysis, August 2014.)

⁴ Code of Maryland, Economic Development Article, Section 5-704(a)(2).

State law also limits the number of enterprise zones the Secretary may designate in one year. The Secretary may not designate more than six enterprise zones Statewide in a calendar year and may not designate more than two enterprise zones in a single county in a calendar year.⁵

Enterprise zone designation remains in effect for ten years. At present, there are 28 State-designated enterprise zones in Maryland with four of these State-designated enterprise zones located in Montgomery County. Of these, three (Glenmont, Long Branch/Takoma Park⁶, and Wheaton) are administered by the County, and one (Olde Towne Gaithersburg) is administered by the City of Gaithersburg. In addition, the County previously administered a State-designated enterprise zone in Silver Spring from 1996 through 2006.

Through Fiscal Year 2016, the Department of Economic Development managed the County's enterprise zone program and staff in that department served as the local enterprise zone administrators. Beginning in Fiscal Year 2017, staff from the Department of Finance assumed responsibility for administering the program.

2. Montgomery County Standards

The Code of Maryland Regulations authorizes local governments to impose additional standards and criteria for state enterprise zones established in that jurisdiction.⁷ Montgomery County has imposed additional standards for the three current enterprise zones administered by the County, including:

- A minimum qualifying capital investment of \$10 per sq. ft. of building floor area improved; and
- At least 20% of the total building floor area be improved.

Further, Montgomery County's local standards for job creation require that a business show:

- A net increase of at least 35 work hours per week for each employment tax credit; and
- An increase in employees of 5% to a minimum of one employee.

3. Focus Areas

State law provides further economic incentives for business investment in enterprise zone "focus areas." The Commerce Secretary may designate a focus area within an enterprise zone, if that area meets at least three of the following five criteria:

- The average rate of unemployment in the area, or within a reasonable proximity to the area but in the same county, is at least 150% of the average rate of unemployment in either the State or the United States for the most recent 18-month period for which data are available;
- The population in the area, or within a reasonable proximity to the area but in the same county, has an incidence of poverty that is at least 150% of the national average;

⁵ Code of Maryland, Economic Development Article, Section 5-704(b)(3) and (4).

⁶ The County and the City of Takoma Park jointly applied to the State for designation of the Long Branch/Takoma Park Enterprise Zone.

⁷ Code of Maryland Regulations, 24.05.01.14 C(5).

- The crime rate in the area, or within a reasonable proximity to the area but in the same county, is at least 150% of the crime rate in the political subdivision where the area is located;
- The percentage of substandard housing in the area, or within a reasonable proximity to the area but in the same county, is at least 200% of the percentage of housing units in the State that are substandard, according to data from the United States Bureau of the Census or other State or federal government data the Secretary considers appropriate; or
- At least 20% of the square footage of commercial property in the area, or within a reasonable proximity to the area but within the same county, is vacant, according to data from the United States Bureau of the Census or other State or federal government data the Secretary considers appropriate.

At present, two State-designated enterprise zone focus areas exist in two Maryland jurisdictions, Baltimore City and Prince George's County.

4. Enterprise Zone Tax Credits and Other Benefits

Under the State enterprise zones program, eligible businesses may qualify for property tax credits for new capital investment as well as income tax credits for job creation. In addition, Montgomery County offers enterprise zone businesses additional benefits as described below.

a. Property Tax Credits

Eligible enterprise zone businesses may qualify for a credit against local property tax payments for a period of ten years. For the first five years, the credit equals 80% of the "eligible assessment" of structural improvements. In years six through ten, the property tax credit then decreases by 10% annually resulting in a 70% credit in the sixth year and a 30% credit in the tenth year.⁸ As defined in State law, the term "eligible assessment" means "the difference between the base year [assessed] value and the actual [assessed] value ... for the applicable taxable year in which the tax credit ... is to be granted."⁹

A property that qualifies for the tax credit anytime during the enterprise zone designation period continues to receive the tax credit for ten years even after the designation expires.¹⁰ In 2006, the Maryland General Assembly approved legislation that allows any business that operated in an enterprise zone during the designation period to remain eligible for property tax credits for an additional five years after the expiration of the enterprise zone designation.¹¹

The local enterprise zone administrator must certify a business as eligible to receive an enterprise zone property tax credit. To qualify for a tax credit, a business must demonstrate that it has met all State and local standards and has either (1) invested in capital improvements in the enterprise zone, or (2) hired new employees at an enterprise zone location.¹²

⁸ Code of Maryland, Tax-Property Article, Section 9-103(d)(1). In enterprise zone focus areas, the property tax credit remains at 80% of the eligible assessment for the entire ten-year period.

⁹ Code of Maryland, Tax-Property Article, Section 9-103(a)(5).

¹⁰ Code of Maryland, Tax-Property Article, Section 9-103(e)(2).

¹¹ Code of Maryland, Tax-Property Article, Section 9-103(e)(3).

¹² Code of Maryland, Economic Development Article, Section 5-707(b)(3).

In 2010, the General Assembly amended State law to allow commercial tenants in Montgomery County to benefit from the enterprise zone property tax credit. The amended law requires that Montgomery County property owners who claim an enterprise zone property tax credit “shall reduce the amount of taxes for which a tenant is contractually liable under the lease agreement by the amount of any credit ... that is attributable to improvements made by the tenant.”¹³

The annual operating budget for the Maryland State Department of Assessments and Taxation (SDAT) includes funding for partial reimbursement to local governments for enterprise zone property tax credits. Since Fiscal Year 2001, the SDAT budget has funded a 50% reimbursement of foregone local property tax revenue.

b. Income Tax Credits

Eligible businesses receive the General Income Tax Credit, a one-time \$1,000 income tax credit for each qualified new employee filing a newly created position in an enterprise zone.¹⁴ In addition, eligible businesses may receive the three-year Income Tax Credit for Economically Disadvantaged Employees, which provides an income tax credit of \$3,000 in the first year, \$2,000 in the second year, and \$1,000 in the third year for each new economically disadvantaged employee hired.¹⁵ An "economically disadvantaged" employee is defined in State law as an individual who, before becoming employed by an enterprise zone business:

- Was both unemployed for at least 30 consecutive days and qualified to participate in training activities for the economically disadvantaged under the federal Workforce Investment Act or its successor; or
- In the absence of an applicable federal act, met the criteria for an economically disadvantaged individual that the Secretary of Labor, Licensing, and Regulation sets.¹⁶

The local enterprise zone administrator must certify a business as eligible to receive an enterprise zone income tax credit by confirming the business hired an employee who:

- Is a new employee or an employee rehired after being laid off for more than 1 year by a business entity;
- Is employed by a business entity at least 35 hours each week for at least 6 months before or during the taxable year for which the entity claims a credit;
- Spends at least 50% of the hours under item (ii) of this paragraph, either in the enterprise zone or on activities of the business entity resulting directly from its location in the enterprise zone;
- Earns at least 150% of the federal minimum wage; and
- Is hired by the business entity after the later of (1) the date on which the enterprise zone is designated; or (2) the date on which the business entity locates in the enterprise zone.¹⁷

¹³ Code of Maryland, Tax-Property Article, Section 9-103(b)(2).

¹⁴ The one-time tax credit for each qualified new employee in a focus area is \$1,500.

¹⁵ In enterprise zone focus areas, the Tax Credit for Economically Disadvantaged Employees is \$4,500 in the first year, \$3,000 in the second year, and \$1,500 in the third year.

¹⁶ Code of Maryland, Tax-General Article, Section 10-702(a)(4).

¹⁷ Code of Maryland, Tax-General Article, Section 10-702(a)(7).

To receive the Income Tax Credit for Economically Disadvantaged Employees, the business must hire a State-certified economically disadvantaged employee who meets the four requirements for the General Income Tax Credit listed above. In addition, for the business to receive this tax credit, the economically disadvantaged employee must remain employed by the business for three years.

c. County Development Impact Tax Exemption

Montgomery County assesses a development impact tax on new residential and commercial buildings and additions to commercial buildings. Revenues from this tax fund transportation and public school capacity improvements needed to accommodate new development. The County does not levy impact taxes in current or former enterprise zones. As stated in the County Code, “a development impact tax must not be imposed on any development located in an enterprise zone designated by the State or in an area previously designated as an enterprise zone.”¹⁸ Proposed legislation currently pending before the Council would, among other things, remove eligibility for the impact tax exemption for properties located in former enterprise zones.¹⁹

d. WSSC System Development Charge Waiver

Maryland State law authorizes the Washington Suburban Sanitary Commission (WSSC) to levy a “system development charge” (SDC) to be paid by applicants for new water or sewer service.²⁰ Revenues from the SDC fund new treatment, transmission, and collection facilities. State law allows Montgomery County to offer an SDC exemption for certain water and sewer service applicants, including “revitalization projects.”²¹

The County Council annually adopts a resolution establishing the SDC for the upcoming fiscal year. The resolution defined revitalization projects to include developments in “any state-designated enterprise zone” and provides for an SDC exemption of up to \$50,000 per revitalization project.²² (See Chapter 3 for a discussion of SDC waivers approved after expiration of the Silver Spring Enterprise Zone.)

e. County Rezoning Transfer Tax Exemption

When real property is sold, the County levies a transfer tax equal to 1% of the selling price. However, when a property is rezoned at the request of the property owner to a more intensive use, the County levies a 6% transfer tax (instead of the 1%). In 2014, the Council approved legislation that exempts transfers of rezoned property located in an enterprise zone from the 6% rezoning transfer tax.²³

¹⁸ Montgomery County Code, Section 52-49(g)(6).

¹⁹ Bill 34-15 sponsored by Councilmembers Rice and Elrich.

²⁰ Code of Maryland, Public Utilities Article, Section 25-401.

²¹ Code of Maryland, Public Utilities Article, Section 25-403.

²² County Council Resolution 18-479, adopted May 17, 2016.

²³ Montgomery County Code, Section 52-21(e)(4).

B. County Designated Burtonsville Enterprise Zone

In 2013, the Maryland General Assembly approved a bill that authorized Montgomery County to establish a County property tax credit for businesses that lease property within the boundaries of the Burtonsville, Crossroads Neighborhood Plan area.²⁴ Later that year, the Council approved legislation to create a property tax credit for certain properties located in the Burtonsville Crossroads Neighborhood Plan area.²⁵ In 2014, the County Executive submitted, and the Council approved, Executive Regulation 6-14 that established policies and procedures for the administration of the Burtonsville Enterprise Zone and set eligibility criteria for certain businesses in that enterprise zone to receive property tax credits. (See Chapter 7 for more details about the purpose, location, and experience to date of the Burtonsville Enterprise Zone.)

The Burtonsville Enterprise Zone property tax credit equals 80% of the taxes due on any expansion, renovation or capital improvement in the property for five years. After five years, the tax credit expires and the property is taxed at its full assessed value. The property tax credit applies to the difference between the base year assessment and the current tax year assessment of structural improvements. If the assessed value of the improvements increases during the five-year credit period, then the 80% credit would apply to the difference between the new assess value and the base year assessed value of the improvements. Last month, the Council approved a bill that allows for a personal property tax credit for eligible businesses in the Burtonsville Enterprise Zone. The Burtonsville tax credit applies only to the County property tax levy; properties in Burtonsville are not eligible for a State property tax credit.

A business is eligible for the tax credit if it operates in the Burtonsville Enterprise Zone but does not own the property on which it operates. In addition, to receive a property tax credit, the business must make capital improvements to the leased property totaling a minimum of \$10 per square foot for at least 20% of the total building floor area. The tax credit applies to capital improvements made after March 18, 2014 and before January 1, 2020.

The County provides an impact tax exemption and a WSSC system development charge waiver for developments in State-designated enterprise zones. The County does not offer these benefits in the Burtonsville Enterprise Zone.

²⁴ Code of Maryland, Tax-General Article, Section 9-317(f).

²⁵ Montgomery County Code, Section 52-18V.

CHAPTER 3: SILVER SPRING ENTERPRISE ZONE

This chapter provides details regarding the designation, purpose, and location of the former Silver Spring Enterprise Zone. In addition, the chapter presents information about the number and types of businesses in the zone that received property tax credits. The major findings of this chapter appear in the box below.

MAJOR FINDINGS

- A large and varied group of commercial interests in Silver Spring took advantage of enterprise zone property tax credit. Tax credit recipients included both large multi-parcel developers as well as small business owners. The tax credit benefit supported the development of retail, office, hotel, entertainment, and other commercial uses.
- The enterprise zone program in Silver Spring was one part of a multi-faceted revitalization effort. The County concentrated resources into a plan – managed by a County-staffed redevelopment office – that included large-scale investment in public facilities, streetscaping improvements, development of public spaces, Economic Development Fund grants and loans, designation of an Arts & Entertainment District, creation of an Urban District, development of a transit hub, and a revitalization marketing campaign. The integration of the enterprise program as part of a much larger redevelopment effort distinguishes the Silver Spring Enterprise Zone from all other enterprise zones in the County or the State.
- The designation of the enterprise zone in Silver Spring occurred in 1996, after initial revitalization and redevelopment activity had occurred. Designation of the enterprise zone was timed to promote further progress in a redevelopment process that had already begun. The enterprise zone program was not tasked to be the primary catalyst for redevelopment.
- The State enterprise zone program provides incentives for commercial (non-residential) investment. Through exemption of the impact tax to all development in an enterprise zone, the County has transformed the program into one that incentivizes both commercial and residential development. In Silver Spring, residential developments have received nearly all the benefit from the enterprise zone impact tax exemption.
- County law extends the impact tax exemption to developments located in former enterprise zones. Exemptions granted after expiration of the enterprise zone designation comprise about 70% of the total dollar amount of impact tax exemptions approved in Silver Spring.
- Based on guidance from the County Government, WSSC has approved more than \$400,000 in system development charge waivers for development that occurred after expiration of the Silver Spring Enterprise Zone. These waivers appear inconsistent with County policy.
- Over the ten-year life of the Silver Spring Enterprise Zone, businesses received income tax credits for creating 1,375 new jobs. Data does not exist to indicate whether these jobs continued to exist beyond the first year.
- Job creation data related to the enterprise zone property tax credit is not complete or reliable. The insufficiency of job creation data is a common characteristic for enterprise zones throughout the State of Maryland.

A. Designation, Purpose, and Location

The State of Maryland designated the Silver Spring Enterprise Zone in December 1996. The enterprise zone designation in Silver Spring expired on December 14, 2006. When first designated, the area qualified for enterprise zone designation because it met the standards for an economically-distressed area. When the Silver Spring enterprise zone expired in 2006, the demographic and economic indicators in the area had improved to a point where the area was no longer eligible for re-designation.¹

In 1997, the Council approved Executive Regulation 5-97 establishing the policies and procedures for the administration of the Silver Spring Enterprise Zone. The regulation stated that the purpose of the Silver Spring Enterprise Zone was to accomplish the following purposes:

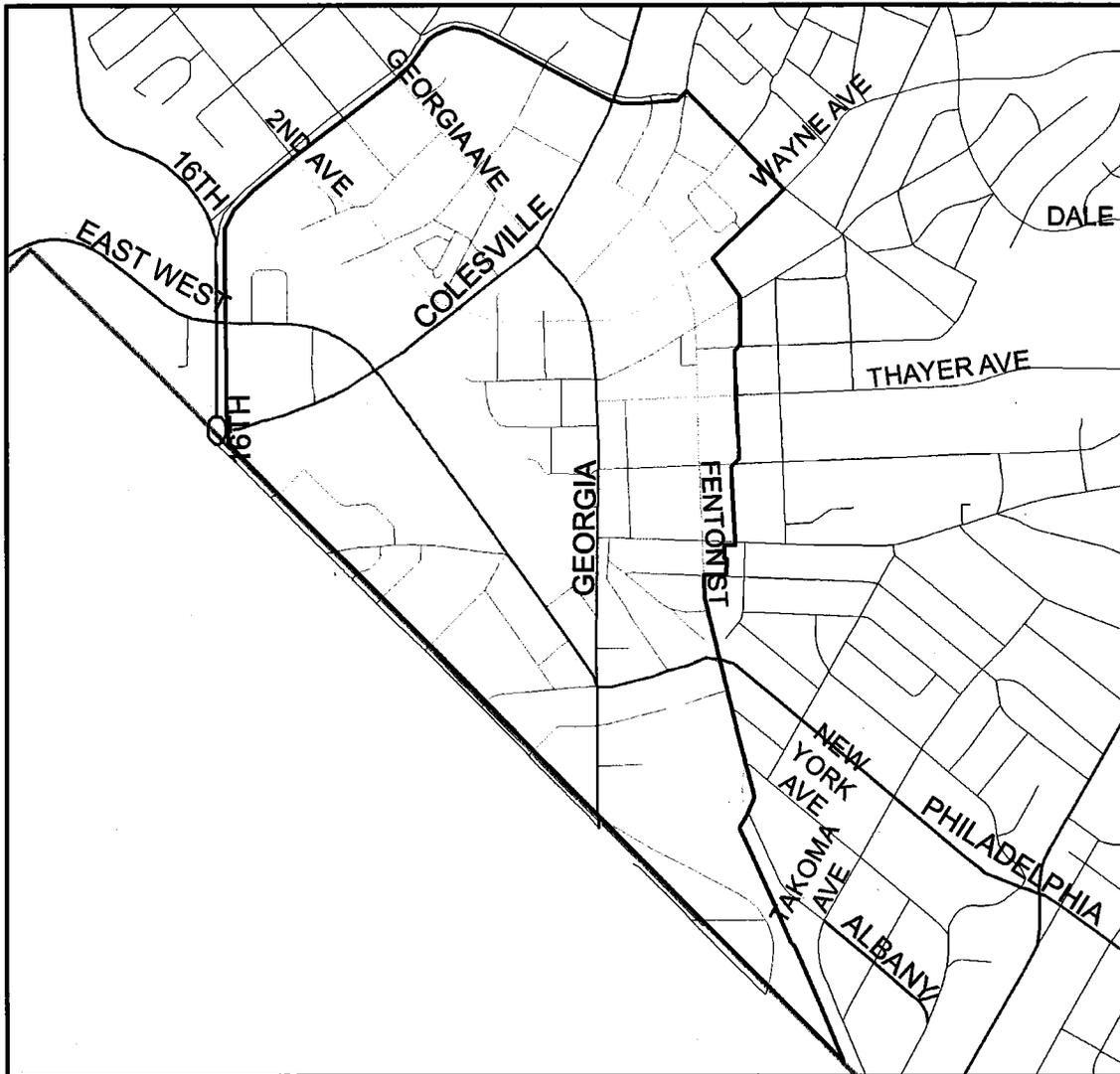
1. To encourage the expansion of existing companies in downtown Silver Spring by improving their profitability; to encourage the location of new businesses to downtown Silver Spring; and to encourage private capital investment in downtown Silver Spring.
2. To improve the attractiveness of downtown Silver Spring as a place to do business while protecting existing neighborhoods.
3. To promote reuse of older buildings in the CBD where economically feasible, and combine a number of programs to reduce and arrest blight.
4. Where redevelopment occurs, to optimize use of the existing transportation network by encouraging participation in the Silver Spring Transportation System Management District.
5. To restore Silver Spring as the downtown for eastern Montgomery County by encouraging a mix of uses and activities that promote a day and evening living environment by providing neighborhood convenience and comparison retail as well as other businesses along with community services, recreational, and cultural amenities.²

¹ *Evaluation of the Enterprise Zone Tax Credit*, Department of Legislative Services Office of Policy Analysis, August 2014, page 33.

² COMAR 02.64L.01

The Silver Spring Enterprise Zone encompasses an area of 386 acres. The Enterprise Zone boundaries are identical to those of the Silver Spring Arts & Entertainment District and includes all of the Silver Spring Central Business District. A map of the Silver Spring Enterprise Zone appears below.

Exhibit 3-1: Map of Silver Spring Enterprise Zone



B. Use of Tax Credits and Other Benefits

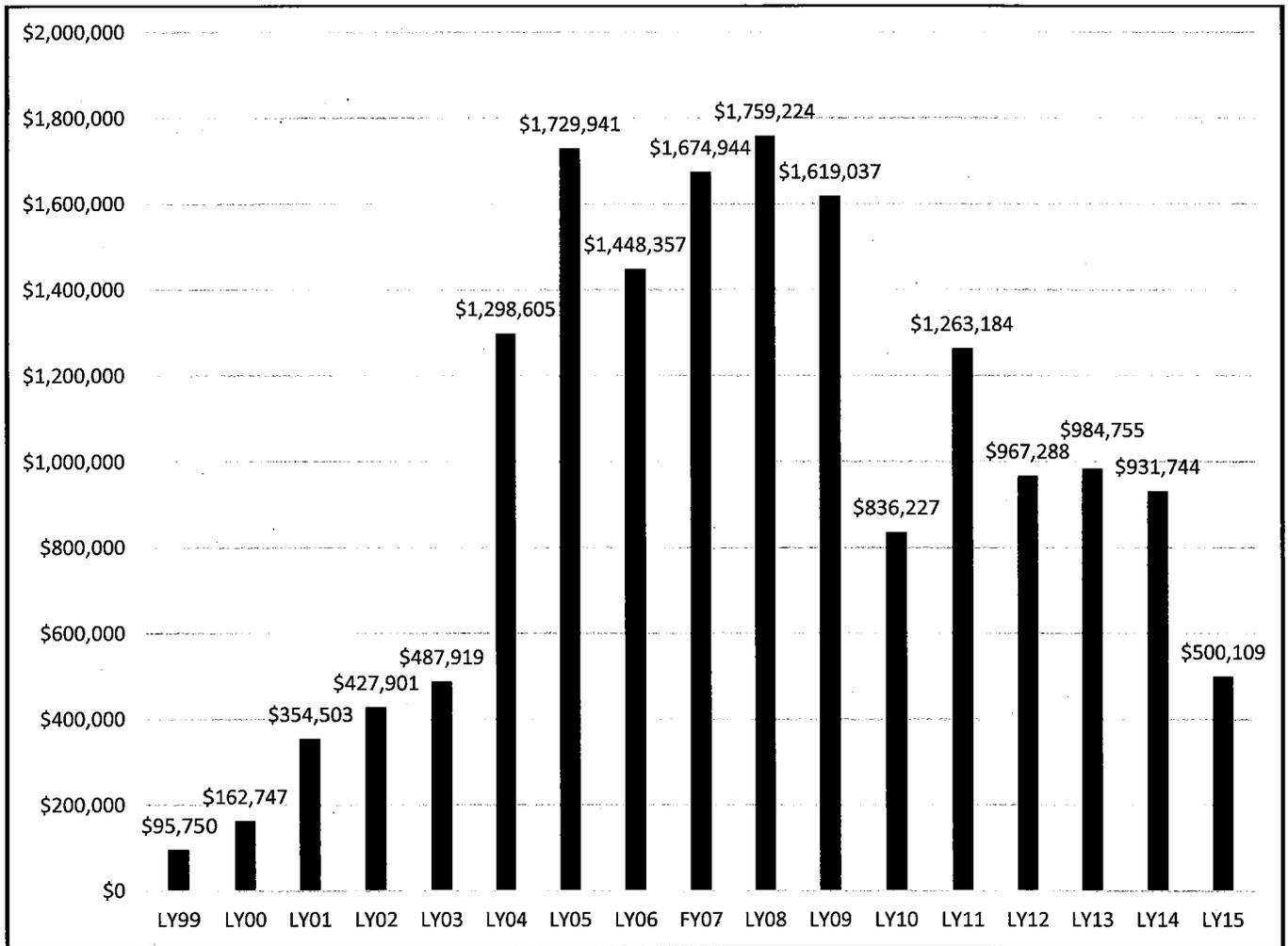
This section presents information on the use of property and income tax credits, impact tax exemptions, and system development charge waivers in the Silver Spring Enterprise Zone.

1. County Property Tax Credits

During the life of the Silver Spring Enterprise Zone, a total of 85 property owners qualified to receive County property tax credits. In Levy Year 1999, the first year of Silver Spring Enterprise Zone property tax credits, 15 properties received such a credit. The combined value of the tax credits increased steadily

through Levy Year 2003 and more than doubled in Levy Year 2004 when the Peterson Companies, the developer of the Downtown Silver Spring project, received more than \$700,000 in property tax credits. Although the enterprise zone designation expired in 2006, property owners who qualified for a tax credit in the last year of the designation continued to receive this benefit through Levy Year 2015. In addition, a State law approved several months before the expiration of the Silver Spring Enterprise Zone permits businesses that operated in the enterprise zone during the designation period to remain eligible for property tax credits for an additional five years after the expiration of the designation (see Chapter 2). As a result, some Silver Spring businesses could continue to receive an enterprise zone property tax credit though Levy Year 2020.

**Exhibit 3-2: Silver Spring Enterprise Zone
Total County Property Tax Credits by Levy Year**



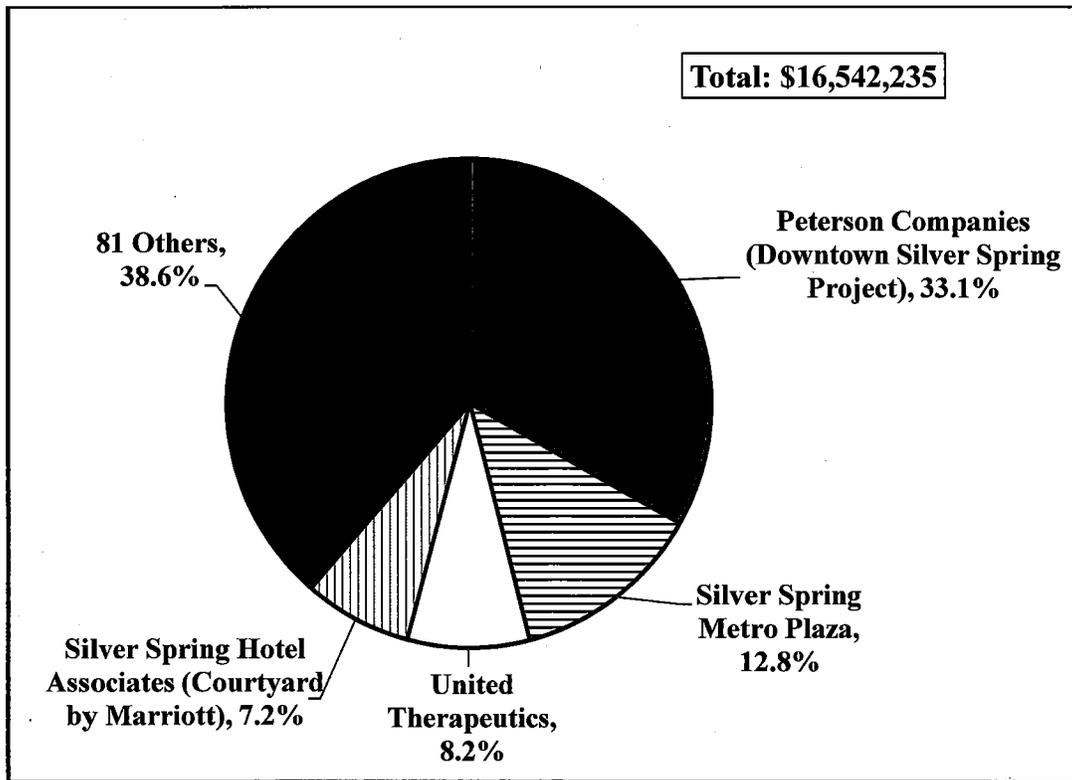
Through Levy Year 2015, property owners received a combined total of \$16,542,235 in tax credits. The amount of tax credits (combined from Levy Years 1999 through 2015) to individual recipients ranged from a high of almost \$5.5 million to a low of \$244.

Table 3-1: Summary of Silver Spring Enterprise Zone County Property Tax Credits: Levy Years 2002 - 2015

Number of Tax Credit Recipients	85
Total Value of Tax Credits (LY 1999 - 2015)	\$16,542,235
Range of Tax Credit Amounts (LY 1999 - 2015)	
Largest (Peterson Companies, Downtown Silver Spring Project)	\$5,487,203
Smallest (1139 East West Highway)	\$244

As shown in the pie chart below, the Peterson Companies received a total of \$5,487,203 in property tax credits, about one-third of the total credits combined over the life of the Silver Spring Enterprise Zone. The second largest property tax credit recipient was the Silver Spring Metro Center project at \$2,125,234 or about 13% of the total. Other large recipients include United Therapeutics at \$1,362,170 (eight percent of the total) and Silver Spring Hotel Associates (Courtyard by Marriott) at \$1,197,299 (seven percent of the total).

Exhibit 3-3: Allocation of Silver Spring Enterprise Zone County Property Tax Credits: Levy Years 1999 - 2015



**Silver Spring Enterprise Zone
Recipients of County Property Tax Credits
Levy Years 1999 - 2015**

- | | |
|--|---|
| <ul style="list-style-type: none"> • 1111 Fidler Lane LLC • 1139 East West Hwy • 201 East Diamond Ave LLC • 801 Roeder Road LLC • 8081 Georgia LLC • 8131 Georgia Avenue LLC • 8215 Fenton Street LLC • 8484 Georgia Avenue LLC • 850 Sligo Avenue LLC • 8501 Georgia LLC • 8515 Georgia Ave Associates LLC • 8622 Colesville Road LLC • 8700 Georgia Avenue Ltd Partnership • 8757 Georgia LLC • A V Investments Maryland LLC • Alignay Investment LLC • Balla Development LLC • Base Properties LLC • Blair Shopping Center LLC • Brian Hewitt • Broad St at Pershing Ct LLC • Burcin Kalendar • Cadles 1400 Spring St LLC • Charles Kim • Chevy Chase Bank FSB • City Place L.P. • Colesville Joint Venture • Dennis A Baird Et Al • DPS Investments LLC • Ellioe LLC • Gallagher Properties LLC • Georgia Cameron Associates • Grandesign Building LLC • Greenberg & Bederman • Guardian Building Associates • Gudelsky Co • Hale Center LLC • Hospitality Associates of Colesville LP • Hospitality Associates of Silver Spring LP • Jemal Post Office Ltd Partnership • Joyce L Bosc • Joyken United Corp • L&S Real Estate LLC | <ul style="list-style-type: none"> • Lance O Bailey • Lung Bioengineering Inc. • Mary Snider • MCB Pershing LLC • Melville Wyse DDS • Montgomery College • The Peterson Companies • Montgomery Preservation Inc. • Murray S & N Richman • Next Trend Styling LLC • Patrick Sanders • Pershing Court LLC • PFA-H Silver Spring LC • Plaza Pershing Court LLC • Privateer Properties LLC • Property Plus Management Inc. • Pyramid Atlantic Inc. • Quaint Acres Estates LLC • Richard Ulf • Robert Sugar • Sailendra Roy • Scott Properties LLC • Shanghai Limited Partnership • Silver Spring Extra Space LLC • Silver Spring Gateway • Silver Spring Hotel Associates LLC • Silver Spring Metro Plaza Ltd Partnership • Sleeping Gypsy LLC • Stephen Hanks • Stoddard LLC • Summit Building LLC • Tastee Diner Inc. • Taylor & Taylor Pershing Drive • The Peterson Companies • Tonzav Holdings LLC • Trizechahn TBI • United Therapeutics Corporation • Unither Telmed Ltd. • Wayne Avenue LLC • WB Kennett Street LLC • Wolfe Family Investments Ltd Partnership • World Building LLC Trustee |
|--|---|

2. Income Tax Credits

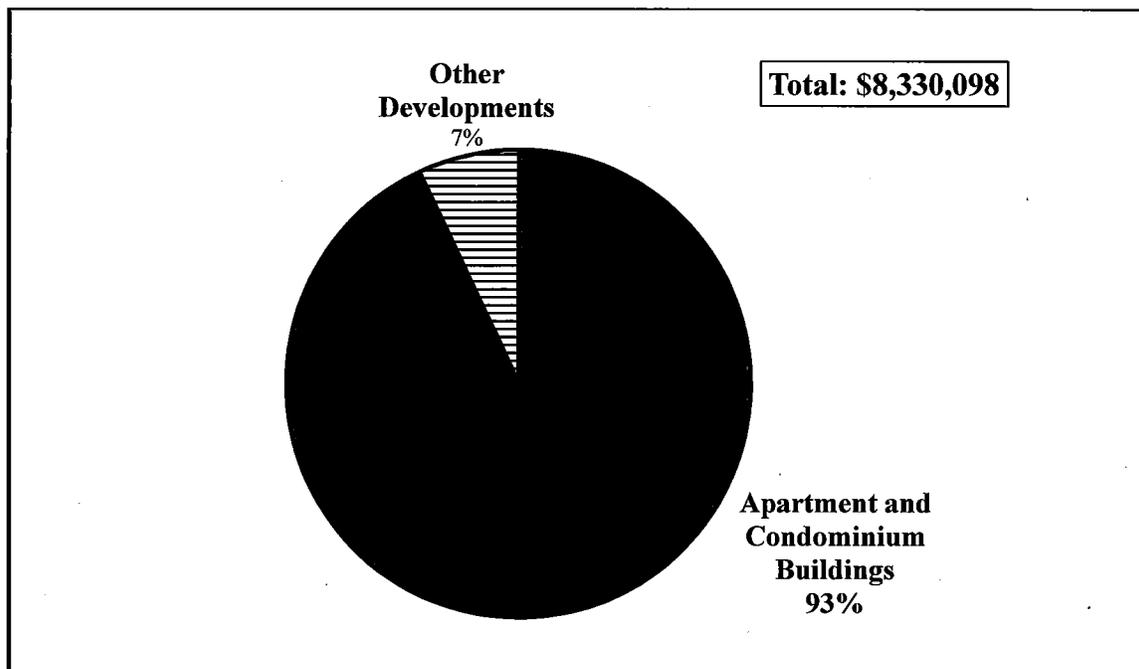
As detailed in Chapter 2, State law allows for eligible businesses to receive a one-time income tax credit of \$1,000 for each qualified new employee filing a newly created position in an enterprise zone. According to annual reports submitted by the County Government to the State, businesses received income tax credits for creating 1,375 new jobs during the ten-year life of the Silver Spring Enterprise Zone. The income tax credits totaled at least \$1.375 million.³

Data does not exist to indicate whether these jobs continued to exist beyond the first year.

3. Impact Tax Exemption

The County assesses a development impact tax on new residential and commercial development. As mentioned in Chapter 2, the County Code exempts properties located in a current or former enterprise zones from paying the impact tax. To date, 41 development projects in the Silver Spring Enterprise Zone have received an impact tax exemption. The amount of these exemptions totals \$8.3 million. As shown in the exhibit below, \$7.8 million (93%) of the impact tax exemptions were for multi-family residential developments. The remaining \$0.5 million were for a variety of other projects including office, retail, hotel, a day care center, and a theater.

Exhibit 3-4: Allocation of Silver Spring Enterprise Zone Impact Tax Exemptions



A provision of the County Code exempts developments located in expired enterprise zones from paying the impact tax.⁴ In the decade since the expiration of the Silver Spring Enterprise Zone designation, the County has foregone about \$5.8 million in impact tax revenue for developments in Silver Spring.

³ This figure is based on a credit of \$1,000 per new employee. The annual reports do not indicate whether any of the businesses received a higher tax credit for hiring economically-disadvantaged employees.

⁴ Montgomery County Code, Section 52-49(g)(6).

4. System Development Charge Waivers

As detailed in Chapter 2, the Washington Suburban Sanitary Commission (WSSC) levies a “system development charge” (SDC) for new water or sewer service. Revenues from the SDC fund new treatment, transmission, and collection facilities. State law allows the County Council to offer an SDC exemption (up to \$50,000) for water and sewer service applicants in enterprise zones. Since FY00, a total of 49 projects located in Silver Spring received an enterprise zone SDC waiver. The combined amount of these waivers sums to \$1,525,205.

In annual resolutions, the Council grants the SDC waiver to developments located in “any state-designated enterprise zone.”⁵ Unlike the impact tax exemption, the SDC waiver does not apply to development in expired enterprise zones. OLO notes that WSSC, based on the guidance of the County Government, has approved ten SDC waivers, totaling \$431,500, since the expiration of the Silver Spring Enterprise Zone in December 2006. These approvals appear inconsistent with the Council resolution that authorize waivers for developments in current enterprise zones. The post-2006 Silver Spring waivers appear to result from an incorrect application of the impact tax provision regarding expired enterprise zones to the SDC.

C. Enterprise Zone Capital Investment and Job Creation

According to the annual enterprise zone reports, businesses receiving Silver Spring Enterprise Zone tax credits invested a combined \$222 million in capital improvements during Levy Years 2002 through 2007. More than one-third of the capital investment, nearly \$78 million, occurred in Levy Year 2004.

While the Silver Spring Enterprise Zone annual reports include some data on job creation, the data is neither complete nor reliable. Accurate job creation data is difficult to collect for several reasons. First, for leased properties, the property owner or real estate holding company that makes the capital investment and applies for the enterprise zone benefits may lack information about jobs created by the lessee who operates the business on the site. In addition, not all businesses comply with reporting requirements and the County Government does not have staff resources to verify job creation data. The insufficiency of job creation data is not limited to enterprise zones in Montgomery County. According to a 2014 report from the Department of Legislative Services, enterprise zones throughout the State of Maryland lack reliable job creation data (see Chapter 8).⁶

D. The Enterprise Zone Experience in Silver Spring

Silver Spring has been recognized as the only area in the State to have undergone significant economic improvement during its period as an enterprise zone. A 2014 analysis by the Department of Legislative Services (DLS) cites Silver Spring as the sole enterprise zone in the State in which an enterprise zone re-invigorated the local property market and spurred additional business investment. DLS notes that the enterprise zone designation occurred concurrently with a comprehensive effort to revitalize Silver Spring. DLS summarizes the Silver Spring Enterprise Zone experience as follows:

During the 1980s and 1990s, Silver Spring experienced a significant loss of retail establishments and other businesses, a high office vacancy rate, and elevated crime in

⁵ County Council Resolution 18-479, adopted May 17, 2016.

⁶ *Evaluation of the Enterprise Zone Tax Credit*, Department of Legislative Services Office of Policy Analysis, August 2014, page 27.

certain areas. The Silver Spring enterprise zone designation in 1997 was part of a comprehensive and sustained effort by Montgomery County to revitalize the downtown area. These efforts included designation of an arts and entertainment district, several redevelopment committees and boards, purchase and restoration of the Silver Theatre, successfully attracting the Discovery Communications headquarters, and a concerted effort to develop a “town center.” According to the Maryland Department of Planning, public investments of about \$450.0 million were accompanied by an additional \$2 billion in private investment. An analysis by the Montgomery County Planning Department concluded that although public investments and incentives were necessary to leverage greater private investments and improve the tax base, there was no “silver bullet” for success but instead a sustained commitment to a comprehensive development plan that was backed by the engagement of both businesses and residents. These comprehensive efforts to improve the community, in conjunction with transportation access and a strong demand for housing in the Washington, DC area, helped positively transform the downtown Silver Spring area.⁷

⁷ *Ibid.*, page 33.

CHAPTER 4: WHEATON ENTERPRISE ZONE

This chapter provides details regarding the designation, purpose, and location of the Wheaton Enterprise Zone. In addition, the chapter presents information about the number and types of businesses in the zone that received property tax credits. The major findings of this chapter appear in the box below.

MAJOR FINDINGS

- Job creation data related to the enterprise zone property tax credit is not complete or reliable. The insufficiency of job creation data is a common characteristic for enterprise zones throughout the State of Maryland. Despite the stated objective of promoting increased private investment in the Wheaton Marketplace (the commercially zoned areas in the Central Business District other than Westfield Shopping Center), during its first 17 years of existence, the Wheaton Enterprise Zone has had minimal impact on the small businesses located in the Marketplace.
- In Wheaton, the primary beneficiary of the enterprise zone property tax credit has been the Westfield Shopping Center. The enterprise zone property tax credit was one of multiple incentives funded by the public sector to promote new private investment at Westfield.
- The original designation of the enterprise zone in Wheaton in 1998 occurred well before major public and private investment occurred in the area. As noted in the County's annual report, designation of the enterprise zone before significant redevelopment activity occurs could be characterized as "premature."
- The State enterprise zone program provides incentives for commercial (non-residential) investment. Through exemption of the impact tax to all development in an enterprise zone, the County has transformed the program into one that incentivizes both commercial and residential development. In Wheaton, residential developments have received more than 80 percent of the benefit from the enterprise zone impact tax exemption.
- Job creation data related to the enterprise zone property tax credit is not complete or reliable.

A. Designation, Purpose, and Location

The State of Maryland originally designated the Wheaton Enterprise Zone in 1998. Following expiration of the original ten-year designation period, the County applied for re-designation of the Wheaton Enterprise Zone, which was approved by the State in 2009. The current designation expires on June 14, 2019.

When first designated, the area qualified for enterprise zone designation because the population in the area had an incidence of poverty that exceeded 125% of the national average. According to the U.S. Census Bureau's 2007 – 2011 American Community Survey, about 21% of Wheaton area residents were in low income households and almost 16% of area residents lived in poverty. The area's unemployment rate for the survey period was 8.5%.¹

¹ United States Census Bureau, <https://www.census.gov/programs-surveys/acs/>

In June 1999, the Council approved Executive Regulation 3-99AM establishing the policies and procedures for the administration of the Wheaton Enterprise Zone. The regulation states that the purpose of the Wheaton Enterprise Zone is to achieve the following outcomes:

1. Reinforce the Wheaton Marketplace by preserving the existing scale of development and retaining as much of the mix of goods and services as possible.
2. Encourage the creation of new jobs and new business investment. Efforts should be focused on encouraging retention of existing companies by improving their profitability, as well as on recruiting new businesses to Wheaton.
3. Encourage redevelopment in the Metro Center area and moderate expansion of Wheaton Plaza and in the Marketplace.
4. Encourage redevelopment in the Metro Center area with a high intensity of mixed uses and activities, including office. Wheaton Plaza, a major regional retail center, should be strengthened.
5. Improve the attractiveness of downtown Wheaton as a place to do business while protecting existing neighborhoods.
6. Promote revitalization of older properties and combine a number of programs to reduce deterioration.
7. Strengthen Wheaton as the downtown for the Mid-County Region. Encourage a mix of uses and activities that promote a 24-hour living environment by providing housing opportunities, neighborhood convenience retail alongside viable comparison shopping, community services, recreational, and cultural amenities.
8. Reinforce the County's other initiatives in Wheaton. Bringing new economic vitality to Wheaton will require a broad-based effort. While there is no single solution to the area's many challenges, the Enterprise Zone is one positive step to complement local incentives and initiatives available through the County.²

² COMAR 02.64L.02

The Wheaton Enterprise Zone encompasses an area of 491 acres. The Enterprise Zone boundaries are identical to the boundaries of the pre-existing Wheaton Central Business District Policy Area. A map of the Wheaton Enterprise Zone appears below.

Exhibit 4-1: Map of Wheaton Enterprise Zone



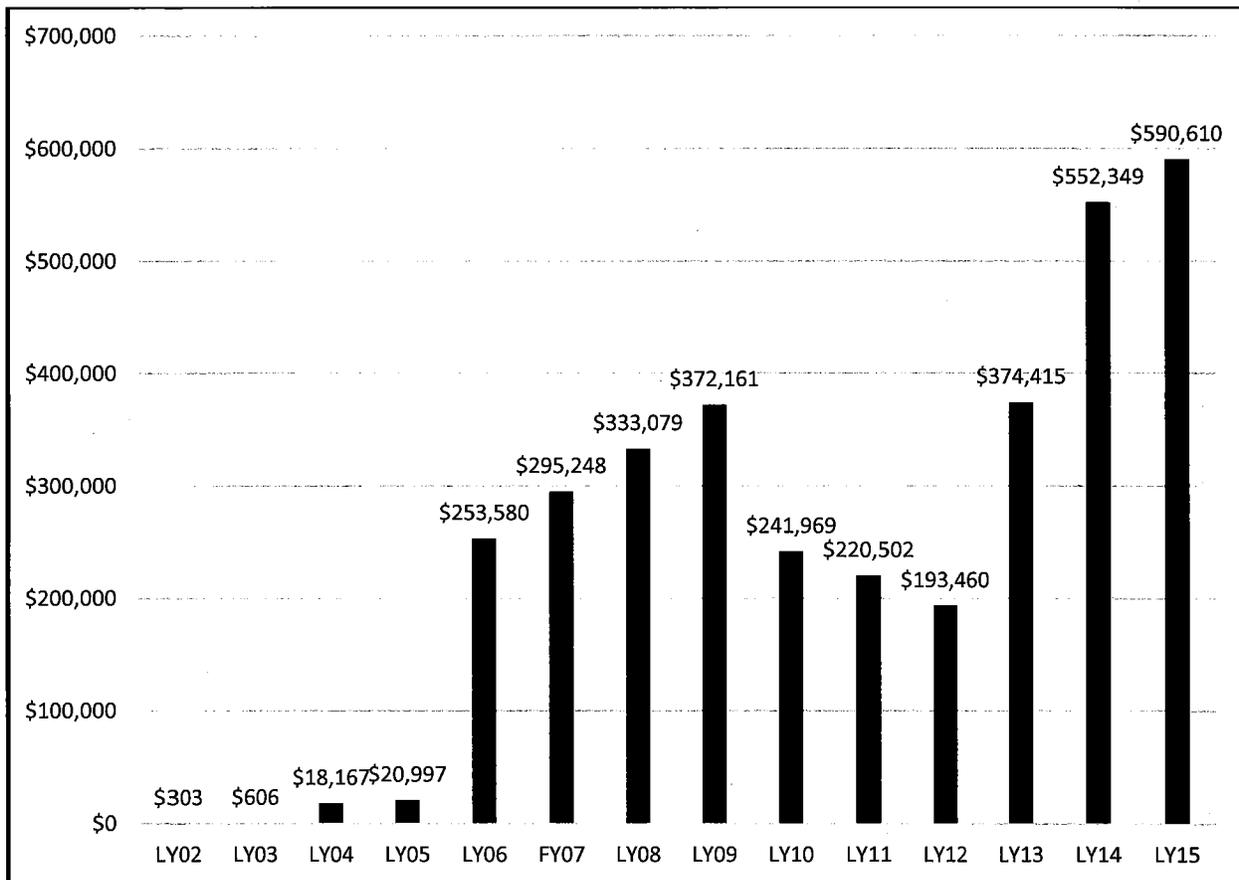
B. Use of Tax Credits and Other Benefits

This section presents information on the use of property and income tax credits, impact tax exemptions, and system development charge waivers in the Wheaton Enterprise Zone.

1. County Property Tax Credits

Since the establishment of the Wheaton Enterprise Zone in 1998, a total of seven property owners have received County property tax credits. Chuck Levin’s Music Center received the first property tax credit, in the amount of \$303, in Levy Year 2002. Through Levy Year 2005, tax credits remained small and were allocated among three property owners. As shown in the exhibit below, the total tax credit jumped in Levy Year 2006 when Westfield Wheaton Shopping Center received its first credit.

**Exhibit 4-2: Wheaton Enterprise Zone
Total County Property Tax Credits by Levy Year**



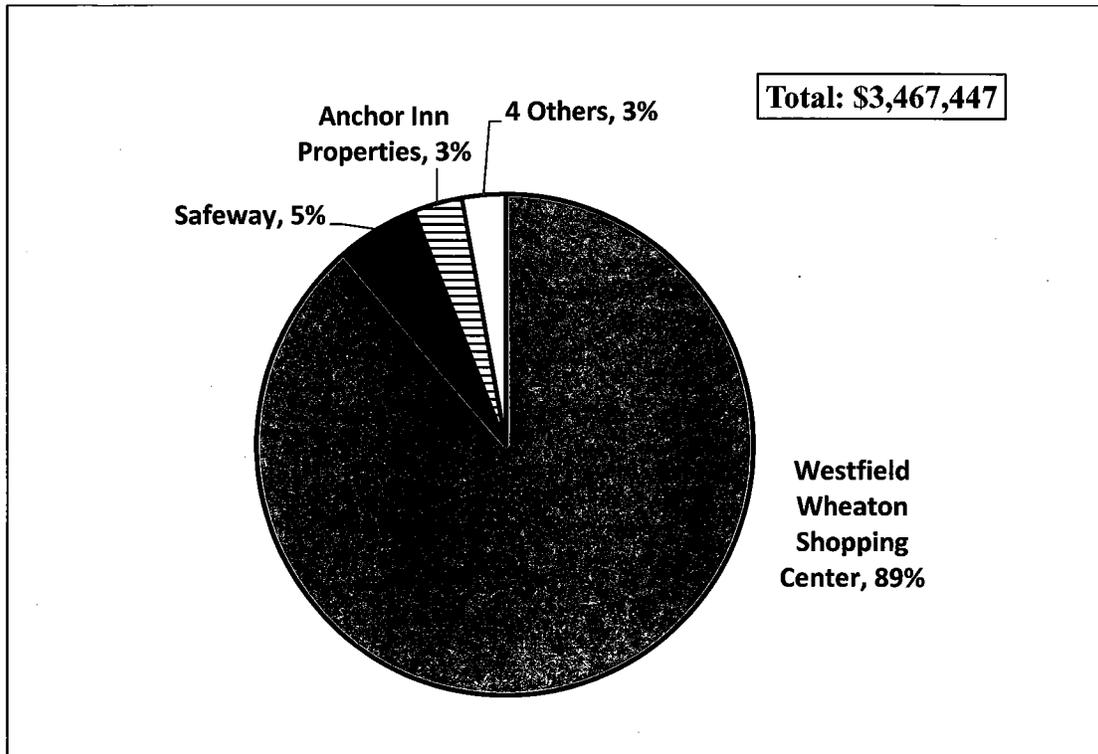
Through Levy Year 2015, property owners received a combined total of \$3,467,447 in tax credits. The amount of tax credits (combined from Levy Years 2002 through 2015) to individual recipients ranged from a high of more than \$3 million to a low of about \$10,600.

**Table 4-1: Summary of Wheaton Enterprise Zone County Property Tax Credits:
Levy Years 2002 - 2015**

Number of Tax Credit Recipients	7
Total Value of Tax Credits (LY 2002 - 2015)	\$3,467,447
Range of Tax Credit Amounts (LY 2002 - 2015)	
Largest (Westfield Wheaton Shopping Center)	\$3,069,587
Smallest (Doris Aaronson, Pollo Compero)	\$10,614

As shown in the chart below, the Westfield Wheaton Shopping Center has received the largest total property tax credit, representing about 89% of the total credits combined over the life (to date) of the Wheaton Enterprise Zone.

**Exhibit 4-3: Allocation of Wheaton Enterprise Zone County Property Tax Credits:
Levy Years 2002 - 2015**



**Wheaton Enterprise Zone
Recipients of County Property Tax Credits
Levy Years 2002 - 2015**

- Alan Levin (Chuck Levin's Music Center)
- Anchor Inn Properties LLC / Georgia East Limited Partnership
- Doris R Aaronson (Pollo Compero)
- Paez Kids LLC
- Safeway, Inc.
- Triangle Park Associates Limited Partnership
- Westfield Wheaton Regional Shopping Center

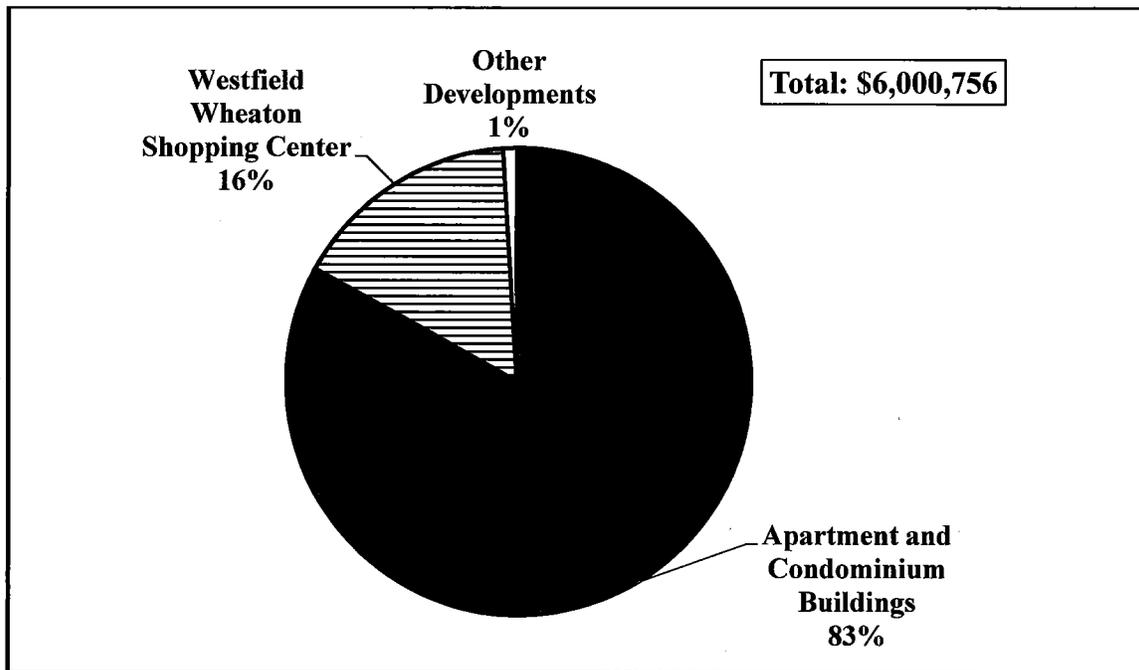
2. Income Tax Credits

State law allows for eligible businesses to receive a one-time income tax credit of \$1,000 for each qualified new employee filing a newly created position in an enterprise zone. Annual reports submitted by the County Government to the State do not show that any Wheaton Enterprise Zone business has received an income tax credit to date.

3. Impact Tax Exemptions

The County assesses a development impact tax on new residential and commercial development. As detailed in Chapter 2, the County Code exempts properties located in an enterprise zone from paying the impact tax. To date, 55 development projects in the Wheaton Enterprise Zone received an impact tax exemption. The amount of these exemptions total \$6.0 million. As shown in the exhibit on the next page, \$4.9 million (83%) of the impact tax exemptions were for multi-family residential developments. Westfield Wheaton Shopping center received an impact tax exemption of \$975,000 (13%).

Exhibit 4-4: Allocation of Wheaton Enterprise Zone Impact Tax Exemptions



4. System Development Charge Waivers

Since FY00, six projects in the Wheaton Enterprise Zone have received an SDC waiver. To date, the combined amount of these waivers is \$188,346.

C. Enterprise Zone Capital Investment and Job Creation

According to the annual enterprise zone reports, businesses receiving Wheaton Enterprise Zone tax credits invested a combined \$193 million in capital improvements during Levy Years 2002 through 2015. Westfield Shopping Center alone made capital improvements totaling about \$184 million or 95% of the total for all tax credit recipients.

Similar to other enterprise zones, the Wheaton Enterprise Zone annual reports includes some data on job creation. However, the data is neither complete nor reliable.³

D. The Enterprise Zone Experience in Wheaton

The County Government acknowledges that the Wheaton Enterprise Zone has yet to generate significant results. The County's 2014 annual report to the State includes the following statement:

In hindsight, Wheaton's designation as an Enterprise Zone was premature. Since its inception in 1998, there have only been about a dozen participants in Wheaton's EZ program. In Montgomery

³ See page 16 for a more complete discussion of job creation data.

County, we now know that the successful redevelopment of a struggling business district isn't due to tax incentives, alone. Incentives need to be offered, in tandem, with significant public investments in the community. ... The lackluster performance of the EZ in Wheaton is about to change, though. During the last several years, the community's goals, which are highlighted in the Wheaton CBD Sector Plan, have become increasingly achievable with the promise of public investment.

CHAPTER 5: LONG BRANCH/TAKOMA PARK ENTERPRISE ZONE

This chapter provides details regarding the designation, purpose, and location of the Long Branch/Takoma Park Enterprise Zone. The major findings of this chapter appear in the box below.

MAJOR FINDINGS

- Job creation data related to the enterprise zone property tax credit is not complete or reliable. The insufficiency of job creation data is a common characteristic for enterprise zones throughout the State of Maryland. The primary beneficiaries of the Long Branch/Takoma Park Enterprise Zone property tax credit have been the EZ Storage on Holton Lane and the Crossroads Professional Building on New Hampshire Avenue. Both of these buildings include some street-level retail. The enterprise zone tax credits prompted minimal other new investment in local retail.
- The original designation of the Long Branch/Takoma Park Enterprise Zone in 2003 and its subsequent re-designation in 2013 occurred independently of any concentrated public redevelopment effort.
- Job creation data related to the enterprise zone property tax credit is not complete or reliable.

A. Designation, Purpose, and Location

The State of Maryland originally designated the Long Branch/Takoma Park Enterprise Zone in 2003. Under the original designation, a portion of the enterprise zone qualified as a “focus area.”¹ The focus area status expired in 2008 while the enterprise zone designation expired in 2013. Following expiration of the original designation, the County applied for re-designation of the Long Branch/Takoma Park Enterprise Zone (without a focus area). The State approved re-designation of the Long Branch/Takoma Park Enterprise Zone in 2013. The current designation expires on June 14, 2023.

The County and the City of Takoma Park jointly administer the enterprise zone.

When first designated, the area qualified for enterprise zone designation because the population in the area had an incidence of poverty that exceeded 125% of the national average. According to the U.S. Census Bureau’s 2007 – 2011 American Community Survey, about 23% of Long Branch/Takoma Park area residents were in low income households and 13% of area residents lived in poverty. The area’s unemployment rate for the survey period was 8.4%.²

¹ See Chapter 2 for an explanation of enterprise zone focus areas.

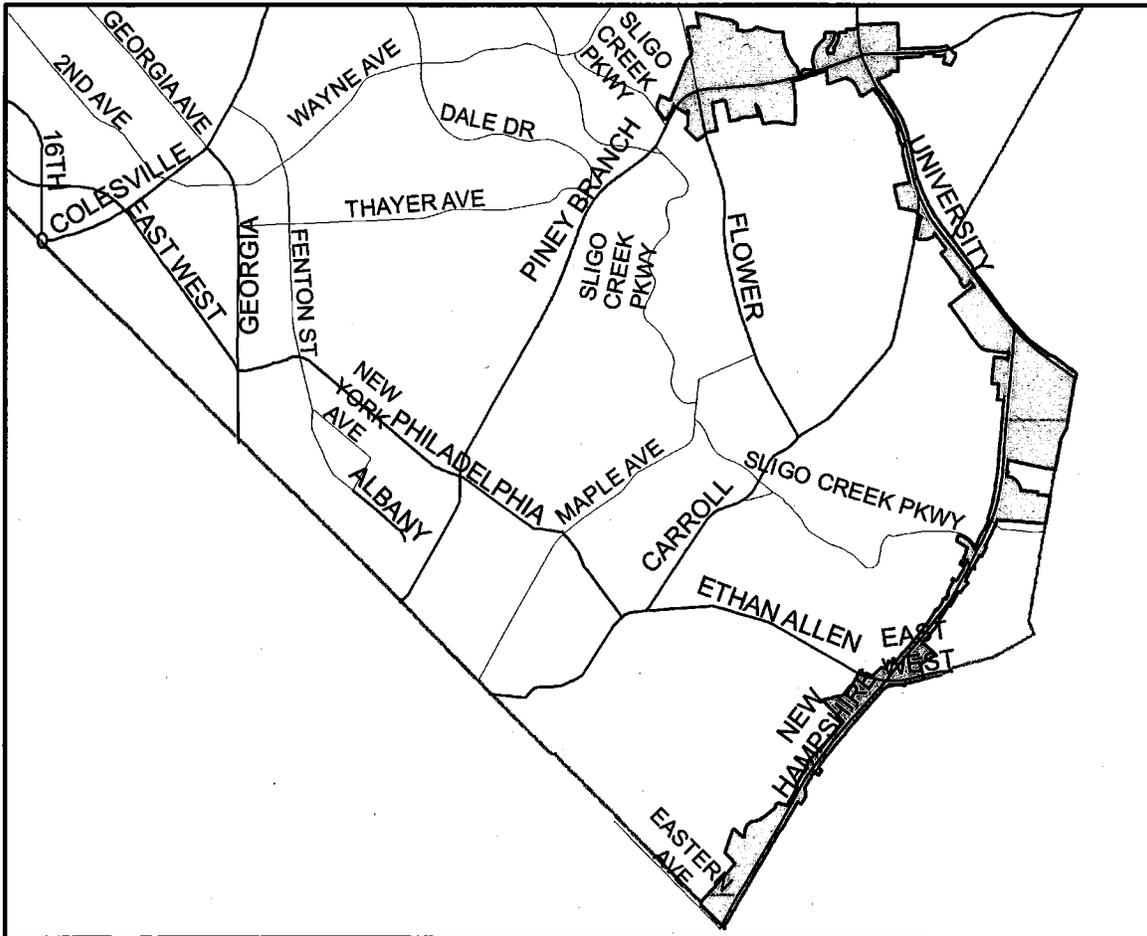
² United States Census Bureau, <https://www.census.gov/programs-surveys/acs/>

In September 2014, the Council approved Executive Regulation 27-13 establishing the policies and procedures for the administration of the Long Branch/Takoma Park Enterprise Zone. The regulation states that the purpose of the Long Branch/Takoma Park Enterprise Zone is to accomplish the following:

1. To encourage new business investment.
Encourage expansion and enhancement of existing companies by improving their profitability. Recruit new businesses to Long Branch/Takoma Park.
2. To preserve existing scale of commercial development.
Encourage retention and enhancement of existing businesses. Support redevelopment projects that complement existing commercial and residential infrastructure.
3. To improve the attractiveness of commercial areas.
Increase enforcement of property maintenance codes. Provide technical assistance and training, rehabilitation loans and grants. Invest in streetscape improvements. Expand maintenance efforts in public right of way. Promote pedestrian friendly improvements.
4. To diversify the mix of goods and services.
Develop an economically diverse mix of goods and services.
5. To preserve public investments.
Promote and support investment that preserves past public investments and furthers ongoing revitalization efforts.
6. To create new jobs.
Encourage the employment of neighborhood residents by new and existing businesses. Promote use of available job training and educational programs.

The Long Branch/Takoma Park Enterprise Zone encompasses an area of 125 acres, mostly consisting of commercial area corridors along Piney Branch Road, University Boulevard, New Hampshire Avenue. Upon re-designation in 2013, the area of the enterprise zone was expanded slightly beyond the original boundaries established in 2003. The current Long Branch/Takoma Park Enterprise Zone appears as the gray-shaded area in the map on the next page.

Exhibit 5-1: Map of Long Branch/Takoma Park Enterprise Zone



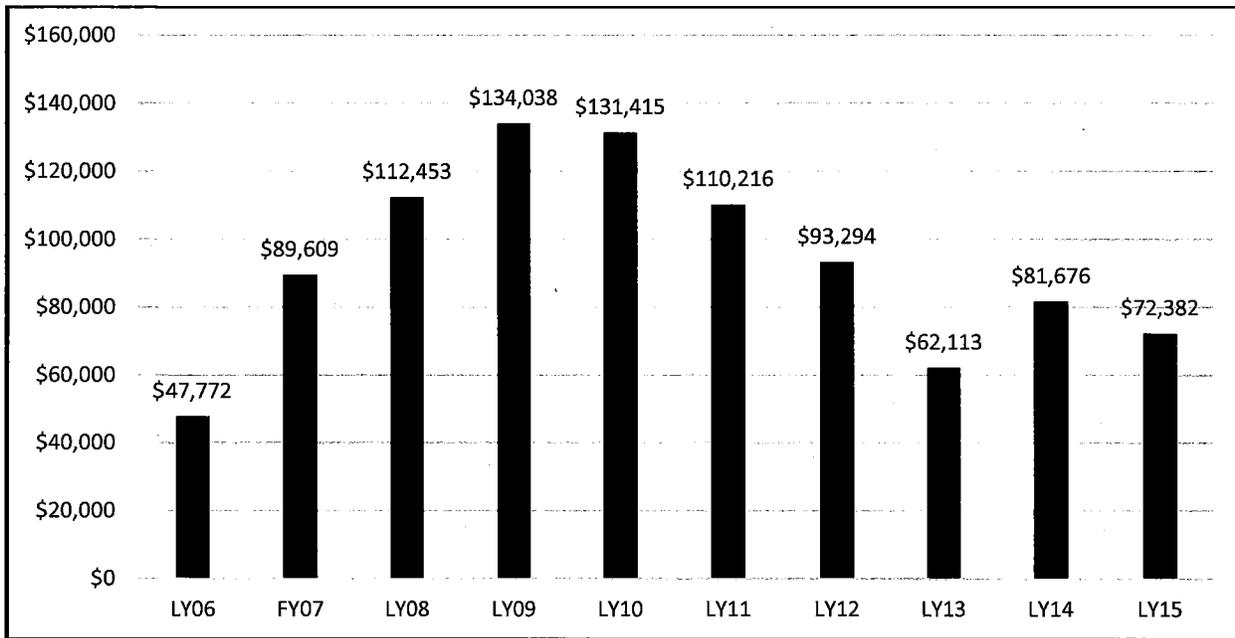
B. Use of Tax Credits and Other Benefits

This section presents information on the use of property and income tax credits, impact tax exemptions, and system development charge waivers in the Long Branch/Takoma Park Enterprise Zone.

1. County Property Tax Credits

Since the establishment of the Long Branch/Takoma Park Enterprise Zone in 2003, a total of six property owners have received County property tax credits. The first property tax credits in this zone occurred in Levy Year 2006. As shown in the exhibit below, the total tax credit peaked in Levy Years 2009 and 2010, the years when Takoma Park Land LLP received its largest tax credits.

**Exhibit 5-2: Long Branch/Takoma Park Enterprise Zone
Total County Property Tax Credits by Levy Year**



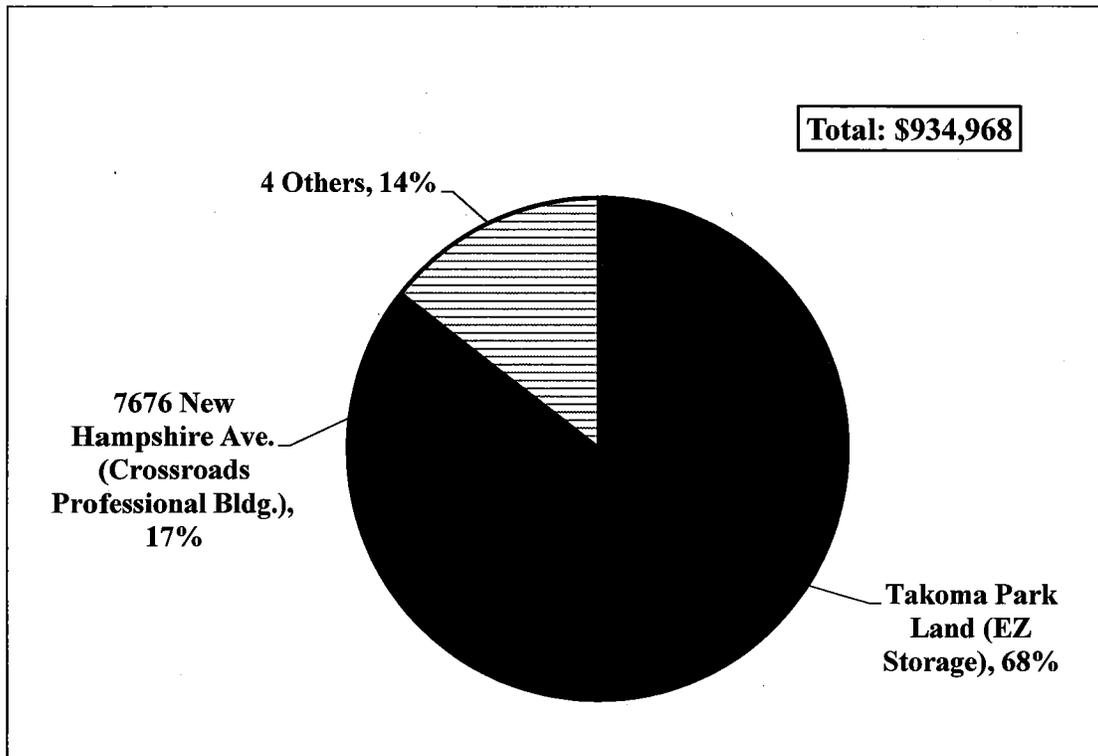
Through Levy Year 2015, property owners received a combined total of \$934,968 in tax credits. The amount of tax credits (combined from Levy Years 2006 through 2015) to individual recipients ranged from a high of more than \$638,000 to a low of about \$15,000.

**Table 5-1: Summary of Long Branch/Takoma Park Enterprise Zone County Property Tax Credits:
Levy Years 2006 - 2015**

Number of Tax Credit Recipients	6
Total Value of Tax Credits (LY 2006 - 2015)	\$934,968
Range of Tax Credit Amounts (LY 2006 - 2015)	
Largest (Takoma Land LLP)	\$638,839
Smallest (Flower Associates)	\$15,451

As shown in the chart below, Takoma Land LLP has received more than two-thirds of the total credits combined over the life (to date) of the Long Branch/Takoma Park Enterprise Zone. The property for which Takoma Land LLC received the property tax credit is the site of the EZ Storage public storage facility on Holton Lane (near the intersection of University Boulevard and New Hampshire Avenue).

Exhibit 5-3: Allocation of Long Branch/Takoma Park Enterprise Zone County Property Tax Credits: Levy Years 2002 - 2015



**Long Branch/Takoma Park Enterprise Zone
Recipients of County Property Tax Credits
Levy Years 2002 - 2015**

- Flower Associates
- Orchard Avenue Offices LLC
- S & B Rutstein Family LLC
- Takoma Park Land LLP (EZ Storage)
- Walgreen Co.
- 7676 New Hampshire (Crossroads Professional Building)

2. Income Tax Credits

State law allows for eligible businesses to receive a one-time income tax credit of \$1,000 for each qualified new employee filing a newly created position in an enterprise zone. Annual reports submitted by the County Government to the State show that, to date, one business received an income tax credit for creating two new jobs in the Long Branch/Takoma Park Enterprise Zone.

3. Impact Tax Exemptions

The County assesses a development impact tax on new residential and commercial development. The County Code exempts properties located in an enterprise zone from paying the impact tax. To date, two development projects in the Long Branch/Takoma Park Enterprise Zone received an impact tax exemption. The amount of these exemptions total \$37,000. A small office building received a \$28,000 exemption and a small retail development received a \$9,000 exemption.

4. System Development Charge Waivers

The Washington Suburban Sanitary Commission (WSSC) levies a “system development charge” (SDC) for new water or sewer service. Revenues from the SDC fund new treatment, transmissions and collection facilities. State law allows the County Council to offer an SDC exemption (up to \$50,000) for water and sewer service applicants in enterprise zones. To date, no SDC waivers have been granted in the Long Branch/Takoma Park Enterprise Zone.

C. Enterprise Zone Capital Investment and Job Creation

According to the annual enterprise zone reports, businesses receiving Long Branch/Takoma Park Enterprise Zone tax credits invested a combined \$11.7 million in capital improvements during Levy Years 2003 through 2015. One half of this capital investment (\$5.9 million) was undertaken by a single tax credit recipient, Takoma Land LLC (for the EZ Storage building on Holton Lane). The Walgreen’s on University Boulevard accounted for another 30% (\$3.5 million) of the total capital investment. The remaining four tax credit recipients invested the remaining 20% (\$2.3 million).

Similar to other enterprise zones, the Long Branch/Takoma Park Enterprise Zone annual reports includes some data on job creation. However, the data is neither complete nor reliable.³

D. The Enterprise Zone Experience in Long Branch/Takoma Park

The County Government acknowledges that the Long Branch/Takoma Park Enterprise Zone has not yet resulted in significant improvement of market conditions. The County’s 2014 annual report to the State includes the following statement:

The Long Branch/Takoma Park EZ continues to struggle with development because the market is still weak. One of the reasons for the weak market is the remnants of the recession, and some of the weak market is attributable to the lack of a large, comprehensive public investment in the community similar to the revitalization efforts in Silver Spring or the proposed governmental office space in Wheaton. Due to the County’s fiscal constraints, the redevelopment of Long Branch/Takoma Park will likely be generated through grass-roots and small-business focused development for the next several years.

³ See page 16 for a more complete discussion of job creation data.

CHAPTER 6: GLENMONT ENTERPRISE ZONE

This chapter provides details regarding the designation, purpose, and location of the Glenmont Enterprise Zone. The major findings of this chapter appear in the box below.

MAJOR FINDINGS

- To date, no Glenmont property owners have received any of the tax credits, exemptions, or waivers associated with the enterprise zone program.
- The County's annual report acknowledges that Glenmont Enterprise Zone activity may be linked to future density increases and land assemblage.

A. Designation, Purpose, and Location

The State of Maryland designated the Glenmont Enterprise Zone on June 15, 2013. The current designation expires on June 14, 2023.

When first designated, the area qualified for enterprise zone designation because the population in the area had an incidence of poverty that exceeded 125% of the national average. According to the U.S. Census Bureau's 2007 – 2011 American Community Survey, about 16% of Glenmont area residents were in low income households and nearly 11% of area residents lived in poverty. The area's unemployment rate for the survey period was 7.0%.¹

In April 2014, the Council approved Executive Regulation 21-13 establishing the policies and procedures for the administration of the Glenmont Enterprise Zone. The regulation states that the purpose of the Glenmont Enterprise Zone is to:

1. Encourage new businesses, capital investments and redevelopment opportunities in Glenmont.
2. Realize the vision for Glenmont as described in the community-based Sector Plan.
3. Improve the economic health, sustainability and quality of life in Glenmont.
4. Encourage existing Glenmont businesses to expand.
5. Increase employment opportunities for Glenmont residents.
6. Raise family incomes and property values in Glenmont.
7. Leverage the existing and planned public infrastructure and amenities, in order to entice private investment and new job creation.
8. Remove barriers that impede economic development.
9. Promote environmental sustainability in Glenmont.

¹ United States Census Bureau, <https://www.census.gov/programs-surveys/acs/>

The Glenmont Enterprise Zone encompasses an area of 235 acres. The Enterprise Zone consists of commercial and mixed used zoned areas near the intersection of Georgia Avenue and Randolph Road as well as tracts of single-family neighborhoods west of Georgia Avenue. The Glenmont Enterprise Zone appears as the gray-shaded area in the map below.

Exhibit 6-1: Map of Glenmont Enterprise Zone



B. Use of Tax Credits and Other Benefits

This section presents information on the use of property and income tax credits, impact tax exemptions, and system development charge waivers in the Glenmont Enterprise Zone.

1. County Property Tax Credits

Since the establishment of the Glenmont Enterprise Zone in 2013, no property owners have received County property tax credits.

2. Income Tax Credits

State law allows for eligible businesses to receive a one-time income tax credit of \$1,000 for each qualified new employee filling a newly created position in an enterprise zone. Annual reports submitted by the County Government to the State do not show that any Glenmont Enterprise Zone business has received an income tax credit to date.

3. Impact Tax Exemptions

The County assesses a development impact tax on new residential and commercial development. The County Code exempts properties located in an enterprise zone from paying the impact tax. To date, the County has issued no impact tax exemptions in the Glenmont Enterprise Zone.

4. System Development Charge Waivers

The Washington Suburban Sanitary Commission (WSSC) levies a “system development charge” (SDC) for new water or sewer service. Revenues from the SDC fund new treatment, transmissions and collection facilities. State law allows the County Council to offer an SDC exemption (up to \$50,000) for water and sewer service applicants in enterprise zones. To date, no SDC waivers have been granted in the Glenmont Enterprise Zone.

C. The Enterprise Zone Experience in Glenmont

To date, no businesses have taken advantage of the enterprise zone tax credit. In the most recent Glenmont Enterprise Zone report to the State, the County raises the prospect that future revitalization efforts may spur redevelopment in the area:

It’s too early to determine whether the EZ designation has improved the community, but there has been renewed dialogue about the revitalization of the importance of increasing density around the Glenmont Metro station. Because of the many different land owners involved in the shopping center, the County, or a developer, may want to consider some type of land assemblage ... to better coordinate future development.

CHAPTER 7: BURTONSVILLE ENTERPRISE ZONE

This chapter provides details regarding the designation, purpose, and location of the Burtonsville Enterprise Zone. The major findings of this chapter appear in the box below.

MAJOR FINDINGS

- While more than one-third of the Burtonsville Enterprise Zone designation period has elapsed, no property owners have received the enterprise zone tax credit.
- The Burtonsville Enterprise Zone designation extends through a time period when no significant redevelopment is planned for the area.

A. Designation, Purpose, and Location

In December 2013, the Council approved legislation to create a property tax credit for certain properties located in the Burtonsville Crossroads Neighborhood Plan area.¹ At that time, the Burtonsville area did not meet the requirements for State designation as an enterprise zone.

The County Executive designated the Burtonsville Enterprise Zone on June 15, 2014. As stipulated in the Code of Montgomery County regulations, business in the Burtonsville Enterprise Zone may qualify for tax credits for capital improvements made after March 18, 2014 and before January 1, 2020.

In September 2014, the Council approved Executive Regulation 6-14 establishing the policies and procedures for the administration of the Burtonsville Enterprise Zone. The regulation states that the purpose of the Burtonsville Enterprise Zone is to:

1. Encourage new business, capital investment and redevelopment opportunities in Burtonsville.
2. Realize the vision for Burtonsville as described in the Burtonsville Crossroads Neighborhood Plan.
3. Improve the economic health, sustainability and quality of life in Burtonsville.
4. Encourage existing Burtonsville businesses to expand.
5. Increase employment opportunities for Burtonsville residents.
6. Raise family incomes and property values in Burtonsville.
7. Remove barriers that impede economic development.
8. Promote environmental sustainability in Burtonsville.

¹ Montgomery County Code, Section 52-18V.

The Burtonsville Enterprise Zone encompasses an area of 191 acres. The Enterprise Zone boundaries are identical to those of the Burtonsville Crossroads Neighborhood Plan. The Burtonsville Enterprise Zone appears as the gray-shaded area in the map below.

Exhibit 7-1: Map of Burtonsville Enterprise Zone



B. Use of Property Tax Credits

In contrast to the State program that offers property tax credits for up to ten years, the County’s enterprise zone program in Burtonsville provides eligible businesses with property tax credits for up to five years. Since the establishment of the Burtonsville Enterprise Zone in 2013, no property owners have received County property tax credits.

Unlike businesses located in a State-designated enterprise zone, businesses in the County-designated Burtonsville enterprise zone are not eligible to receive income tax credits, impact tax exemptions, or system development charge waivers.

C. The Enterprise Zone Experience in Burtonsville

To date, no businesses have taken advantage of the enterprise zone tax credit. The lack of enterprise zone activity may be a result of the timing of the designation. The 2012 Burtonsville Crossroads Neighborhood Plan does not anticipate large scale redevelopment of major commercial areas in the near-term. Regarding the Burtonsville Crossing Shopping Center site, the Plan states that “since significant redevelopment may not occur in the near-term, the Plan supports interim development that can enhance the economic viability of the center.”² For another commercial property, the Burtonsville Town Square Shopping Center, the Plan states that “this shopping center is unlikely to be redeveloped during the life of the Plan.”³

² *Burtonsville Crossroads Neighborhood Plan*, Montgomery County Planning Department, December 2012, page 41.

³ *Ibid.*, page 42.

CHAPTER 8: ENTERPRISE ZONE LIMITATIONS AND CHALLENGES

This chapter discusses several of the limitations and challenges encountered by enterprise zone programs in Maryland and throughout the United States. The content of this chapter is based on OLO's review of governmental analyses and journal articles regarding existing enterprise zones programs.

A. Uncertain Efficacy

Studies of enterprise zones both in Maryland and elsewhere in the United States have had difficulty quantifying the economic benefits of enterprise zones. In large part, the problem stems from the lack of reliable data regarding enterprise zone job creation. Job creation is a central objective of most enterprise zone programs. However, meaningful evaluation of the efficacy of an enterprise zone program becomes impossible without complete and reliable data. In a 2004 report to the Maryland General Assembly, the Department of Legislative Services (DLS) concluded:

[The Department of Business and Economic Development] DBED¹ does not have reliable data on the number of jobs created as a result of the Enterprise Zone program. DBED has produced an estimate in recent annual reports; however, this data is collected from local zone administrators and is based on the companies which choose to report the data. This estimate is not accurate for two reasons: (1) it does not include some of the companies that claim the credit and (2) it does not include businesses that are not claiming the credit. In addition, DBED does not verify that the data provided by local administrators is accurate; it is also not clear the extent to which local administrators verify the company-reported information.²

More complete data is available for enterprise zone programs in some other states. Nonetheless, multiple independent studies of programs in other states could not find conclusive, quantifiable evidence that enterprise zones had a positive effect on employment. For example, a 2009 evaluation of the effectiveness of employment data in California did not demonstrate a connection between enterprise zones and increased employment.

Our main finding is that enterprise zones have no statistically significant effect on either employment levels or employment growth rates.... Clearly, the program does not have a statistically significant effect on employment growth during either the year an area is designated or in any of the following years.³

B. Low Levels of Program Participation

Beyond job creation, another possible measure of the effectiveness of enterprise zones could be participation levels of local businesses. Chapters 3 through 7 of this report document how only a handful of businesses have claimed the property tax credit in County-administered enterprise zones (with the exception of the former Silver Spring Enterprise Zone). Enterprise zones elsewhere in the State have had

¹ The Department of Business and Economic Development was renamed the Department of Commerce in 2015.

² *Evaluation of the Enterprise Zone Tax Credit*, Department of Legislative Services Office of Policy Analysis, August 2014, page 27, http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/WEB-Evaluation-of-the-Enterprise-Zone-Tax-Credit.pdf.

³ Kolko, Jed and Neumark, David, *Do Enterprise Zones Create Jobs?*, Public Policy Institute of California, 2009, pages 14 and 16, http://www.ppic.org/content/pubs/report/R_609JKR.pdf.

similar experiences. DLS found that in many enterprise zones, few businesses have claimed the property tax credit.

Of the 30 current enterprise zones, 13 zones have less than 10 businesses claiming Enterprise Zone property tax credits. Not only are these enterprise zones failing to attract many businesses, but a number of the businesses claiming the tax credit are not making significant investments in those zones.⁴

In contrast, a large number of businesses claimed the property tax credit enterprise in the former Silver Spring Enterprise Zone. As detailed in Chapter 3, the Silver Spring experience differs from that of other enterprise zones in that the County targeted resources and multiple coordinated programs to spur redevelopment in that area. In Silver Spring, the enterprise zone program was coupled with other efforts to encourage private investment and job creation.

The DLS analysis cites a possible reason why the tax credits have enticed few businesses to relocate to Maryland enterprise zones:

State and local business taxes do not account for a large share of a business's activity so taxes should not be a big influencing factor on location decisions. State and local business taxes make up only 4% of Maryland's private-sector gross State product in 2012 so taxes are only a small share of a business's activity. Other considerations play a larger role in determining where a business will locate, such as being strategically located near suppliers and customers.⁵

C. Size of Participating Businesses

Several studies have found that the size of a business affects participation in enterprise zone programs. A report by the U.S. Department of Housing and Urban Development concluded that "larger businesses were far more likely to take advantage of ... Federal tax incentives than their smaller counterparts."⁶ Similarly, the study of California enterprise zones determined that "there are fixed costs to taking advantage of enterprise zone benefits, and large establishments (or firms) are therefore more likely to find enterprise zone benefits more attractive."⁷ Data from Montgomery County support the finding the larger businesses are more likely to claim enterprise zone property tax credits. In the Wheaton Enterprise Zone, for example, a single large business, Westfield Shopping Center, has claimed almost 90% of property tax credit dollars.

D. Geographic Dispersion of Benefits

In addition to encouraging private investment to help revitalize a local community, another objective of enterprise zone programs is to provide employment opportunities to economically disadvantaged residents who live in or near the designated boundaries of the zone. Nonetheless, some studies have determined that enterprise zone tax credits have minimal effect on employment opportunities for nearby

⁴ *Evaluation of the Enterprise Zone Tax Credit*, page 77.

⁵ *Ibid*, page 92.

⁶ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Interim Assessment of the Empowerment Zones and Enterprise Communities Program: A Progress Report*, November 2001, page vi, https://www.huduser.gov/Publications/pdf/ezec_report.pdf.

⁷ Kolko and Neumark, page 15.

residents. Instead, new any job creation likely benefits individuals who live outside of the enterprise zone. As stated by the Department of Legislative Services:

While Enterprise Zone tax credits may incentivize some businesses to create additional jobs within enterprise zones, the tax credit is not effective in providing employment to zone residents that are chronically unemployed and/or live in poverty. A number of factors contribute to this problem, including skills mismatches for new jobs created, lower than average educational attainment levels of zone residents, and labor mobility.⁸

Other economic benefits resulting of private capital investment zones may also be dispersed beyond the immediate location of an enterprise zone. DLS notes that “[g]iven the limited geography of zones, most of the indirect impacts of credits (additional construction spending and income) will not be recycled within the zone but will be realized in areas beyond the zone.”⁹

E. Proliferation of Enterprise Zones and Dilution of Benefits

The number of enterprise zones have proliferated in recent years. Across Maryland, there currently are a total of 29 State-designated enterprise zones. Of these 29 enterprise zones, 18 were designated (or re-designated) in the past four years. At present, four State-designated and one County-designated enterprise zones exist in Montgomery County.¹⁰ Multiple zones in one region may compete against one another for private investment dollars, thus diminishing the potential benefits of designations.

In its 2004 report, DLS notes that the proliferation of new enterprise zones as well as the expansion of the boundaries of existing enterprise zones could dilute the impact of the program. As a result, DLS has recommended that the State:

Propose statutory changes that will provide for evaluation criteria that must be considered before an enterprise zone may be expanded. These criteria could include restrictions on the size of any expansion, whether businesses have expressed interest in locating within the potential area of expansion, and whether basic infrastructure is in place in order to facilitate business development within the proposed expansion area.¹¹

Analysis of economic development incentive programs across the United States has identified a potential drawback resulting from the proliferation of enterprise zones. A paper in the *Journal of Regional Analysis & Policy* concluded that:

Creation of more enterprise zones, in particular if enterprise zones are established in areas that are only marginally distressed or not distressed at all, will simply dilute the effectiveness of incentive packages offered in distressed EZs.¹²

⁸ *Evaluation of the Enterprise Zone Tax Credit*, page 77.

⁹ *Evaluation of the Enterprise Zone Tax Credit*, page 66.

¹⁰ In addition to the three State-designated enterprise zones administered by Montgomery County, the City of Gaithersburg administers its Olde Towne Enterprise Zone.

¹¹ *Evaluation of the Enterprise Zone Tax Credit*, page 79.

¹² Landers, Jim, *Why Don't Enterprise Zones Work?*, *Journal of Regional Analysis & Policy* 36(1):15-30,2006, page 25, <http://ageconsearch.umn.edu/bitstream/132311/2/06-1-2.pdf>.

CHAPTER 9: MAJOR REPORT FINDINGS AND RECOMMENDED DISCUSSION QUESTIONS

This first section of this chapter summarizes the major findings of the report. The second section presents OLO's recommended discussion questions related to the future direction of the enterprise zone program.

Summary of OLO Findings

Finding #1: To date, property owners have claimed almost \$21 million in property tax credits combined in the four State-designated and one County-designated enterprise zones administered by Montgomery County.

As shown in the table below, nearly 80% of tax credits went to businesses located in the now expired Silver Spring Enterprise Zone. No businesses in the two most recently designated enterprise zones, Glenmont and Burtonsville, have yet to claim a property tax credit.

**Table 9-1:
Amount of Property Tax Credits Claimed in County-Administered Enterprise Zones**

Enterprise Zone	Property Tax Credit Amounts
Silver Spring (expired)	\$16,542,235
Wheaton (active)	\$3,467,447
Long Branch/Takoma Park (active)	\$934,968
Glenmont (active)	\$0
Burtonsville (active)	\$0
Total	\$20,944,650

The Maryland State Department of Assessments and Taxation (SDAT) reimburses Montgomery County and other local governments for 50% of the foregone revenue resulting from the enterprise zone property tax credit.

Finding #2: With the exception of Silver Spring, the enterprise zone property tax credits incentivize investment for only a few, mostly large businesses.

In Silver Spring, a large and varied group of commercial interests took advantage of enterprise zone property tax credit. Tax credit recipients included both large multi-parcel developers as well as small business owners. The tax credit benefit supported the development of retail, office, hotel, entertainment, and other commercial uses.

On the other hand, primarily large businesses have claimed the property tax credit in Wheaton and Long Branch/Takoma Park:

- The primary beneficiary of the enterprise zone property tax credit in Wheaton has been the Westfield Shopping Center. The enterprise zone property tax credit was one of multiple incentives funded by the public sector to promote new private investment at Westfield. Only six other businesses have claimed a property tax credit during the life of the Wheaton Enterprise Zone.

- Only six businesses in the Long Branch/Takoma Park Enterprise Zone have claimed a property tax credit since 2003. The primary beneficiary of the property tax credit has been a public storage facility that claimed more than two-thirds of the total credit amount.

Finding #3: The integration of the enterprise program as part of a much larger redevelopment effort distinguishes the Silver Spring Enterprise Zone from all other enterprise zones in the County or the State.

The enterprise zone program in Silver Spring was one part of a multi-faceted revitalization effort. The County concentrated resources into a plan – managed by a County-staffed redevelopment office – that included large-scale investment in public facilities, streetscaping improvements, development of public spaces, Economic Development Fund grants and loans, designation of an Arts & Entertainment District, creation of an Urban District, development of a transit hub, and a revitalization marketing campaign. No other enterprise zone in the County or the State was integrated within a comprehensive commercial revitalization program on the scale of Silver Spring.

Finding #4: The County's experience suggests that enterprise zone tax credits alone are not sufficient to induce large private investment. As such, an enterprise zone may have its greatest potential when the designation period occurs in conjunction with other initiatives and after local redevelopment activity has already begun.

As noted by the Department of Legislative Services, State and local business taxes do not account for a large enough expense for an enterprise zone tax credit alone to serve as a large incentive for business relocation. With the exception of Silver Spring, enterprise zone designations in Montgomery County occurred well before the onset of concentrated revitalization activity. In these cases, the enterprise zone tax credits had minimal effect on private investment.

In Silver Spring, the enterprise zone program was not tasked to be the primary catalyst for redevelopment. Rather, the Silver Spring Enterprise Zone was designated after initial revitalization and redevelopment activity had occurred. The subsequent designation of the enterprise zone served to promote further progress in a redevelopment process that had already begun.

Finding #5: Few businesses in current enterprise zones have claimed an income tax credit.

State law allows for eligible businesses to receive a one-time income tax credit of \$1,000 for each qualified new employee filling a newly created position in an enterprise zone. County records show only two businesses (both in Long Branch/Takoma Park) located in current enterprise zones have claimed an income tax credit.

Businesses in the now expired Silver Spring Enterprise Zone claimed income tax credits for creating 1,375 new jobs between 1996 and 2006. Data does not exist on whether these jobs continued to exist beyond the first year.

Finding #6: Enterprise zone job creation data is neither complete nor reliable.

The insufficiency of job creation data is a common characteristic for enterprise zones throughout the State of Maryland. Accurate job creation data is difficult to collect for several reasons. First, for leased properties, the property owner or real estate holding company that makes the capital investment and applies for the enterprise zone benefits may lack information about jobs created by the lessee who operates the business on the site. In addition, not all businesses comply with reporting requirements and the County Government does not have staff resources to verify job creation data.

Finding #7: While the State enterprise zone program is intended to benefit commercial (non-residential) development, Montgomery County offers an enterprise zone impact tax exemption that has primarily benefitted residential developments.

The State enterprise zone program is designed to support investment in job-creating commercial developments. As such, residential properties are not eligible for enterprise zone tax credits.

Montgomery County assesses a development impact tax on residential and commercial developments to fund transportation and public school capacity improvements. The County Code exempts developments in current and former enterprise zones from paying impact taxes. As shown in the table below, residential developments received 89% of the total dollar value of enterprise zone impact tax exemptions.

**Table 9-2:
Amount of Impact Tax Exemptions in County-Administered Enterprise Zones**

Enterprise Zone	Impact Tax Exemption Amounts		
	Commercial	Residential	Total
Silver Spring (expired)	\$546,746	\$7,783,352	\$8,330,098
Wheaton (active)	\$1,064,500	\$4,936,256	\$6,000,756
Long Branch/Takoma Park (active)	\$37,275	\$0	\$37,275
Glenmont (active)	\$0	\$0	\$0
Totals	\$1,648,521	\$12,719,608	\$14,368,129

Nonetheless, new residential development may achieve outcomes that are consistent with goals of the enterprise zone program such as promoting redevelopment and eliminating blight. In addition, new residential units could provide customers for commercial developments in mixed-use areas.

Finding #8: Developments approved after expiration of the enterprise zone designation in Silver Spring have benefitted from the impact tax exemption.

The designation of Silver Spring as an enterprise zone expired in 2006. However, County law extends the impact tax exemption to developments located in former enterprise zones. To date, developments approved after the expiration of the Silver Spring Enterprise Zone received impact tax waivers totaling \$5.8 million.

Finding #9: Contrary to County policy, developments approved after expiration of the enterprise zone designation in Silver Spring have benefitted from the system development charge waiver.

Maryland State law authorizes the Washington Suburban Sanitary Commission (WSSC) to levy a “system development charge” (SDC) for new water or sewer service. Revenues from the SDC fund new treatment, transmission, and collection facilities. The Council annually adopts a resolution that specifies the types of developments that are eligible for a waiver of the system development charge. The resolution provides the waiver to developments in State-designated enterprise zones. Unlike the impact tax exemption, the SDC waiver does not apply to developments in expired enterprise zones. OLO has determined that WSSC, based on guidance from the County Government, has approved more than \$400,000 in system development charge waivers for developments that occurred after expiration of the Silver Spring Enterprise Zone.

OLO Recommended Discussion Questions

Based on the findings presented above, OLO recommends that the Council consider the following discussion questions when reviewing the future of the enterprise zone program in Montgomery County.

Enterprise Zones Outcomes: State and County legislation authorizing the creation of enterprise zones cite many and varied objectives for the programs. The stated goals include promoting economic growth, encouraging redevelopment, attracting business relocation, supporting existing businesses, eliminating blight, and providing job opportunities for the chronically unemployed. Some enterprise zone goals expand beyond economic concerns; for example, the County regulations establishing the Glenmont and Burtonsville Enterprise Zones each list “promoting environmental sustainability” as a goal for those zones.

OLO staff believes that enterprise zones cannot be expected to achieve all of the diverse goals attributed to these programs. Therefore, OLO suggests that the Council, after consultation with the Executive Branch and the Montgomery County Economic Development Corporation, should consider crafting a more refined definition of enterprise zone objectives. As a corollary issue, the Council should discuss which types of businesses should be the targeted beneficiaries of the program. A refined and more realistic definition of enterprise zone goals is necessary in order to conduct meaningful evaluation of program success.

Questions #1 and #2 address strategies and policies to achieve desired outcomes from enterprise zones.

Question #1: What outcomes should the County expect from enterprise zones? How should the County/State evaluate the success of the enterprise zone program?

Question #2: Which business types should be the target beneficiaries of the enterprise zone program? (Large national retail? Small business? Existing local businesses? Redevelopment projects?) What changes in the State or County enterprise zone programs would be necessary to direct benefits to targeted business types?

Timing of Enterprise Zone Designations: With the exception of Silver Spring, enterprise zone designations in Montgomery County occurred well before the onset of concentrated revitalization activity. In these cases, the enterprise zone tax credits had minimal effect on private investment. In Silver Spring, the enterprise zone was not tasked to be the primary catalyst for redevelopment but was employed after initial revitalization and redevelopment activity. Moreover, in Silver Spring, the County concentrated significant resources into a multi-faceted plan to revitalize the area. Undertaking comprehensive revitalization efforts on the scale of Silver Spring in multiple areas simultaneously could severely strain County resources.

Questions #3 and #4 address the preferred timing of enterprise zone designation in relation to other public and private sector economic development activity.

Question #3: What is the optimal timing for enterprise zone designation? What market and economic conditions should exist prior to designation? What should be the relationship between enterprise zone designation and the planning/zoning process?

Question #4: Should the County concentrate and focus intensive commercial revitalization efforts on one geographic area at one time?

Enterprise Zones as part of the County's Economic Development Strategy: Enterprise zones are but one of many economic development tools employed by the State of Maryland and Montgomery County. However, little evidence exists that enterprise zones alone are sufficient to induce large private investment. OLO suggests that the Council assess the role on enterprise zones within the context of the County's larger economic development strategy.

Last year, the Council approved Bill 25-15 that eliminated the County Department of Economic Development and established a new Montgomery County Economic Development Corporation (MCEDC). Management of the enterprise zone program, previously the responsibility of the Department of Economic Development, will fall to other County agencies. The role of MCEDC, if any, in promoting the enterprise zone program is yet to be determined.

Questions #5 and #6 relate to the role of the State and County enterprise zone programs within the context of the larger County economic development strategy.

Question #5: How should the County coordinate the enterprise zone program with other Local and State neighborhood level efforts to revitalize aging commercial centers (such as infrastructure improvements, streetscaping and façade improvements, job training, marketing campaigns, etc.)?

Question #6: How does the enterprise zone program fit in to other elements of the County's Comprehensive Economic Strategy? What should be the roles of the Montgomery County Economic Development Corporation, the Department of Finance, and other Executive Branch departments in the management and promotion of the enterprise zone program?

Enterprise Zones, Impact Taxes, and the System Development Charge: The State enterprise zone program provides incentives for commercial (non-residential) investment in areas of high poverty and unemployment. Through exemption of the impact tax to all development in an enterprise zone, the County has transformed the program into one that incentivizes both commercial and residential development. In fact, residential developments have received nearly all the benefit from the enterprise zone impact tax exemption.

County law provides the impact tax exemption to developments in former enterprise zones. Thus, current County policy offers benefits to developments in areas that no longer retain the poverty and unemployment characteristics necessary to qualify as an enterprise zone.

County policy allows for a waiver of the WSSC system development charge for developments in State-designated enterprise zones. Unlike the impact tax exemption, the system development charge waiver does not apply to developments in expired enterprise zones. Nonetheless, more than \$400,000 in system development charge waivers have been approved for developments that occurred after expiration of the Silver Spring Enterprise Zone.

Questions #7 and #8 address the policies to exempt developments in current and former enterprise zones from the impact tax and to waive the system development charge for properties in current enterprise zones.

- Question #7: What is the policy justification for an enterprise zone impact tax exemption that benefits predominantly residential developments? Should the County continue to offer an impact tax exemption after the expiration of the enterprise zone designation?**
- Question #8: Is it the Council's policy intent to grant system development charge waivers after the expiration of the enterprise zone designation?**

CHAPTER 10: AGENCY COMMENTS

The Office of Legislative Oversight circulated a final draft of this report to the Chief Administrative Officer. OLO appreciates the time taken by Executive Branch staff to review the draft report and provide comments. The final report incorporates technical corrections provided by the Executive Branch.

The written comments received from the Chief Administrative Officer begin on the next page.



OFFICE OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

July 20, 2016

TO: Chris Cihlar, Director, Office of Legislative Oversight

FROM: Timothy L. Firestine, Chief Administrative Officer *Timothy L. Firestine*

SUBJECT: Draft OLO Report 2016-10: The Experience and Effect of County-Administered Enterprise Zones

Thank you for the opportunity to comment on Draft OLO Report 2016-10: The Experience and Effect of County-Administered Enterprise Zones. The Office of Legislative Oversight described the structure, benefits, and past experience of enterprise zones in the County and posed timely questions for the County to deliberate.

As stated in the report, enterprise zones in the County, in Maryland, and in the country have had varied degrees of success. When combined with an achievable vision and additional programmatic and financial resources, an enterprise zone designation can be extremely effective in spurring new development in a distressed community. Silver Spring, a formerly designated enterprise zone, is an excellent example of this.

The report notes that the majority of the enterprise zone projects receiving impact tax waivers have been residential. It is important to recognize that with limited demand for new office space, urban residential projects have been the driving force of the development industry for the past 10 years. Such residential projects have helped create the mixed-use, 24-hour vitality the County seeks to achieve in its transit-oriented, urban cores, and they have increased the County's affordable housing stock. Additionally, these new developments, whether residential or commercial, have resulted in an increase in the County's assessable tax base, which generates increased tax revenues over the long-term.

Following are additional comments to the Draft's findings and discussion questions:

FINDINGS:

Finding #1: To date, property owners have claimed almost \$21 million in property tax credits combined in the four State-designated and one County-designated enterprise zone administered by Montgomery County.

This statement is accurate.

Finding #2: With the exception of Silver Spring, the enterprise zone property tax credits incentivize investment for only a few, mostly large businesses.

The dollar amount of the credits available to large companies provide a greater incentive for them to pursue. Another consideration is large businesses have resources and time to pursue available tax credits and waivers.

Finding #3: The integration of the enterprise program as part of a much larger redevelopment effort distinguishes the Silver Spring Enterprise Zone from all other enterprise zones in the County or the State.

Silver Spring's success was based in large part on the County and State's commitment of multiple financial and programmatic resources. Additionally, the County's acquisition of the properties which became the Peterson project and the relocation of Discovery Communications enabled tools like the enterprise zone to be implemented.

Finding #4: The County's experience suggests that enterprise zone tax credits alone are not sufficient to induce large private investment. As such, an enterprise zone may have its greatest potential when the designation period occurs in conjunction with other initiatives and after local redevelopment activity has already begun.

The timing of an enterprise zone designation is critical to its success as a revitalization tool. However, the impact tax exemption available to commercial and residential projects in State-designated enterprise zones is another valuable resource and should not be overlooked. This exemption has helped to push several projects over the finish line because it lowers the amount of debt/equity required at a time when a project is without cash flow.

Finding #5: Few businesses in current enterprise zones have claimed an income tax credit.

A contributing factor could be because businesses aren't aware of the tax credit or because they undervalue the \$1,000 credit per employee.

Finding #6: Enterprise zone job creation data is neither complete nor reliable.

This finding is accurate.

Finding #7: While the State enterprise zone program is intended to benefit commercial (non-residential) development, Montgomery County offers an enterprise zone impact tax exemption that has primarily benefitted residential developments.

Enterprise zones in the County also have goals such as improving the attractiveness of downtown areas, promoting both day and evening living environments, encouraging redevelopment and the revitalization of older properties, and encouraging new capital investment in the community – goals that are supported by new housing development.

Chris Cihlar, Director, Office of Legislative Oversight
July 20, 2016
Page 3

Finding #8: Developments approved after expiration of the enterprise zone designation in Silver Spring have benefitted from impact tax exemption.

This statement is accurate.

Finding #9: Contrary to County policy, developments approved after expiration of the enterprise zone designation in Silver Spring have benefitted from the system development charge waiver.

The policy regarding the waiving of system development charge (SDC) fees in the former Silver Spring Enterprise Zone is unclear but not necessarily contrary to County policy. The Council's annual waiver SDC exemption resolution states that the SDC waiver may be applied to "any Montgomery County designated neighborhoods, as determined by the Montgomery County Executive and County Council, as a revitalization neighborhood for activities that will act to preserve, stabilize, and enhance the social, physical, and economic conditions of the neighborhood." (Schedule B, item h.). For clarity and consistency in administering these fee waivers, the Executive Branch relied on the expired enterprise zone designation in Silver Spring as qualifying under item (h.) above when making its recommendation to WSSC to waive SDC fees for projects in this geographic area. The Executive Branch ceased the practice of recommending SDC waivers in the Silver Spring Enterprise Zone in 2016, ten years after the zone expiration.

DISCUSSION QUESTIONS:

The Office of Legislative Oversight recommends that the Council consider a variety of questions (Questions #1-8 in the Draft) in relation to the enterprise zone program in Montgomery County. In addition, the Executive Branch proposes the following questions:

1. How should the County go about identifying the areas in which to seek State enterprise zone designation? In addition to the State criteria for enterprise zone designation, what factors should the County consider in identifying communities in need of revitalization/enterprise zone designation?
2. Should the County and its Economic Development Corporation change the mode of delivery of services to be more decentralized instead of operating a centralized clearinghouse function, i.e. staff to be physically located in an enterprise zone as was the case in Silver Spring?

Thank you again for your work on this report. If you have any questions or need additional information, please contact Tina Benjamin, Special Projects Manager, at 240-777-2006 or at tina.benjamin@montgomerycountymd.gov.

TLF:trb

cc: Fariba Kassiri, Assistant Chief Administrative Officer
Bonnie Kirkland, Assistant Chief Administrative Officer
Lily Qi, Assistant Chief Administrative Officer
Tina Benjamin, Special Projects Manager