Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 11 (Chair, Finance Committee)(By Request - Departmental - Commerce)

Finance Ways and Means

Distressed Counties - References and Definitions

This departmental bill changes the definition of "distressed county" for purposes of the Senior Citizen Activities Center Operating Fund by specifying that the term includes Baltimore City and any county that otherwise meets existing requirements. The bill also clarifies terms in several State programs by updating references from "qualified distressed county" (QDC) to "Tier I County." **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: The bill does not materially affect State finances or operations.

Local Effect: Total local revenues and expenditures are unaffected but may be reallocated between affected jurisdictions as discussed below.

Small Business Effect: The Department of Commerce (Commerce) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services (DLS) concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The definition of "distressed county" for purposes of the Senior Citizen Activities Center Operating Fund is changed to explicitly include Baltimore City. Eligibility criteria are otherwise unchanged.

The QDC term is updated to "Tier I County" for the purposes of the Maryland Economic Development Assistance Authority and Fund (MEDAAF) and the Maryland Industrial Financing Authority (MIDFA). The fiscal and policy note for Chapter 584 of 2018 assumed these changes, as discussed below.

The bill also updates an obsolete reference in the Education Article.

Current Law/Background:

Senior Citizen Activities Center Operating Fund

In General – Funding Formula

The Senior Citizen Activities Center Operating Fund administered by the Maryland Department of Aging (MDoA) supports activities to keep individuals healthy through services provided at senior centers, such as fitness and nutrition education programs, dental health programs, and disease management programs. The fund is a nonlapsing fund to which the Governor must appropriate at least $750,000 annually, plus an additional amount necessary to guarantee a minimum of $5,000 per county under a portion of the funding formula. Funding is provided as follows:

- $100,000 must be distributed to counties for senior citizen activities centers based on a competitive grant process administered by MDoA;
- $400,000 must be distributed based on each county's proportional share of the statewide population of senior citizens, with each county *guaranteed at least* $5,000; and
- at least $250,000 must be distributed to "distressed counties." Of the $250,000, $150,000 must be divided evenly, and $100,000 must be divided proportionately based on each county's share of the total population of senior citizens.

Distressed County

For purposes of the Senior Citizen Activities Center Operating Fund, a "distressed county" means a county with:

- an average unemployment rate that exceeded the State's average during the preceding 24-month period by either two percentage points or 150%; or
- a *per capita personal income* that may not exceed *67%* of the State's average during the preceding 24-month period.

The term also includes any county that no longer meets the unemployment and personal income criteria but has met at least one of the criteria at some point in the preceding 24-month period. Prior to Chapter 584 of 2018, this mirrored the QDC definition used across several State programs.

Baltimore City and Allegany, Dorchester, Somerset, and Worcester counties currently qualify under this definition.

Tier I County

"Tier I County" means a county with:

- an average unemployment rate that exceeded the State's average during the preceding 24-month period by either two percentage points or 150%; or
- a *median household income* that may not exceed *75%* of the State's average during the preceding 24-month period.

The term also includes any county that no longer meets the unemployment and personal income criteria but has met at least one of the criteria at some point in the preceding 24-month period. This definition is used in several State economic development programs, including the One Maryland Program and the More Jobs for Marylanders Program.

Baltimore City and Allegany, Caroline, Dorchester, Garrett, Kent, Somerset, Washington, Wicomico, and Worcester counties currently qualify under this definition.

Maryland Economic Development Assistance Authority and Fund

MEDAAF is the principal finance and incentive program for Commerce. The authority provides below-market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to businesses and local jurisdictions. Businesses located in a Tier I County/QDC are eligible for enhanced financing terms and structuring. In addition to other local incentives, the amount of direct assistance provided to local jurisdictions is increased from a maximum of 70% to 100% of the project cost if the project is located in a Tier I County/QDC.

Maryland Industrial Development Financing Authority

MIDFA promotes significant economic development by providing financing support to manufacturing, industrial, and technology businesses located in or moving to Maryland. MIDFA does not provide direct loans but insures bonds, loans, and certain other types of transactions from financial institutions. The program promotes private-sector financing by providing insurance to transactions resulting in reduced credit risks and enabling better terms. Recipients generally must pay bond issuance fees and annual premiums of one-half of 1% of all insured transactions, unless waived because the project is located in a Tier I County/QDC.

Tier I County/Qualified Distressed County References Altered by Chapter 584 of 2018

Chapter 584 of 2018 replaced the term QDC with "Tier I County" for the purposes of the One Maryland Program and changed the income criteria from per capita income to median household income. Although the term is used widely across several programs, it was not directly replaced in the bill. Instead, uncodified language directed the publisher of the Maryland Annotated Code, in consultation with and subject to the approval of the Department of Legislative Services, to correct cross-references and terminology rendered incorrect by the Act. The fiscal and policy note for the legislation assumed that the uncodified language affected the QDC definition in other programs.

References in the More Jobs for Marylanders Program were subsequently changed, but those in MEDAAF and MIDFA were not.

State Fiscal Effect: Changing the distribution of a fixed amount of funds from the Senior Citizen Activities Center Operating Fund does not affect State finances, but it may alter the distribution to various counties, as discussed below.

The effects on MEDAAF and MIDFA were assumed in the fiscal and policy note for Chapter 584 of 2018 – a decrease in special fund revenues for Commerce due to fewer MIDFA fees and a potential reallocation of MEDAAF funding across various projects.

Local Revenues: Total local revenues and expenditures are unaffected. As discussed above, as part of the funding formula for the Senior Citizen Activities Center Operating Fund, $250,000 is distributed to distressed counties each year. Of that amount, $150,000 is distributed evenly and $100,000 is distributed by senior citizen population. Absent a significant change in the economic environment, Baltimore City is expected to exit its 24-month grace period for purposes of eligibility for distressed county funds in mid-fiscal 2020. Therefore, to the extent that the bill results in Baltimore City retaining its eligibility, it continues to keep its share of distressed county funds under the current formula (about one-third to one-half of the $250,000). This funding would have otherwise been redistributed to other local jurisdictions that meet distressed county eligibility criteria. Under current trends, the funding likely would have been distributed to three to five counties, depending on county level unemployment/income variation, beginning in fiscal 2021.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Commerce; Maryland Department of Aging; Maryland State Department of Education; Department of Legislative Services

Fiscal Note History: First Reader - January 21, 2019
mm/vlg Third Reader - March 28, 2019
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES (SFY 2019)

TITLE OF BILL: Clarification of definition and program references to "Tier 1" County

BILL NUMBER: SB 11

PREPARED BY: Mikra Krasniqi (Department of Commerce)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This proposal would provide additional clarification to the definition "Tier 1" County under the One Maryland Tax Credits-Simplification and Alteration legislation, passed during the 2018 legislative session. As such the proposed change would not have any meaningful economic impact on small businesses. The Small Business Economic Impact Statement on One Maryland Tax Credits is reproduced below.

The One Maryland Tax Credits- Simplification and Alteration, passed in FY 2018.
The program sought to accomplish three goals: a) simplify and streamline One Maryland Tax Credit (OneMD); and b) change the credit amount a business can qualify for based on the number of jobs the firm creates; and c) change the definition of Qualified Distressed County (QDC) to account for income differences.

Several of the proposed changes would make it possible for more small businesses to take advantage of the program. With its requirement to create at least 25 jobs and minimum investment of $500,000, most of the OneMD recipients to date have been larger businesses. This proposal would make available up to $1 million in credits for businesses that create 10 jobs within 24 months, up to $2.5 million in credit for 25 jobs, and $5 million in credits for 50 jobs. Our research has shown that firms that hire and retain 10 or more jobs in a year (1,680) is nearly triple the number who add 25 or more jobs (600).

Small businesses in particular have said that the program's complexity would require them to hire outside accounting expertise to use. Simplifying the credit would make it easier for small business to take advantage of the credit. Among the needed changes, this bill will replace project and startup credit with one credit of $5 million, as well as limit moving costs to $500,000. The one credit change will simplify the process so that businesses can apply the financing to multiple sets of eligible expenses.

The credit will also change the credit to being refundable in 4 years after the first credit year, instead of the previous and complicated two-tier structure. Businesses with a large income tax liability and that create a large number of jobs currently are able to use the credit more quickly than businesses that create a smaller number of jobs and have little or no tax liability. Changing the refundability structure will allow small businesses to take advantage of the credits, since they tend to have a smaller tax liability.

Finally, the bill also proposes changes to the definition of QDC based on household income. Using the current criteria of unemployment and per capita income, only five jurisdictions meet the criteria of a Qualified Distressed County. Yet there are other rural counties where most families have far lower incomes than the per capita average. Using median household income as the criteria addresses this disparity and would enable more counties to qualify. This would open the program to businesses in more rural counties where most businesses are small.

The One Maryland Tax Credit is important because of its focus on businesses in distressed counties. Many small business and start-ups can benefit from the program, especially the proposed changes. It’s important to note that startups and young companies are the most vibrant in creating new jobs but a significant number of them fail to grow beyond the first year. And while these young firms may need more than just financial assistance to expand, the availability of capital seed to address workforce needs, physical infrastructure, and other basic investments that enable businesses to grow is critical for these firms to be able to weather challenges of expansion.