

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$57,177	\$49,259	\$66,444	\$17,186	34.9%
Contingent & Back of Bill Reductions	0	0	-21	-21	
Adjusted General Fund	\$57,177	\$49,259	\$66,423	\$17,165	34.8%
Special Fund	27,819	71,693	68,090	-3,603	-5.0%
Contingent & Back of Bill Reductions	0	0	-7	-7	
Adjusted Special Fund	\$27,819	\$71,693	\$68,083	-\$3,610	-5.0%
Federal Fund	5,373	2,153	1,782	-370	-17.2%
Contingent & Back of Bill Reductions	0	0	-1	-1	
Adjusted Federal Fund	\$5,373	\$2,153	\$1,781	-\$371	-17.2%
Reimbursable Fund	1,278	1,169	1,017	-152	-13.0%
Adjusted Reimbursable Fund	\$1,278	\$1,169	\$1,017	-\$152	-13.0%
Adjusted Grand Total	\$91,647	\$124,273	\$137,304	\$13,031	10.5%

- The fiscal 2014 allowance includes a fiscal 2013 general fund deficiency of \$500,000 to complete a proposal to operate an unmanned aerial system test site in Maryland. The fiscal 2014 budget bill includes a back of the bill reduction to health insurance expenses. The department's share of this reduction totals \$29,552 across all funds.
- The increase in general funds in the fiscal 2014 allowance is artificially inflated by \$8 million due to the use of the fiscal 2013 Budget Restoration Fund, as created in Chapter 1 of the First Special Session of 2012, that restored the funding for the Maryland Biotechnology Investment Tax Credit program. The remaining increase in general funds reflects enhancements to several departmental programs including a \$2.0 million increase in the Maryland Biotechnology Investment Tax Credit program and a \$1.9 million increase to the Maryland State Arts Council.

For further information contact: Jody J. Sprinkle

Phone: (410) 946-5530

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- The increase in general funds also reflects the inclusion of a proposed cybersecurity investment tax credit program of \$3.0 million.
- After adjusting for the use of the Budget Restoration special funds in fiscal 2013, fiscal 2014 special funds actually increase by \$5.6 million. The increase is largely driven by increases to the department’s minority business programs.
- Federal funds decline in fiscal 2014 due to the loss of grant funding associated with the economic impact of Base Realignment and Closure.

Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Positions	225.00	224.00	224.00	0.00
Contractual FTEs	<u>13.20</u>	<u>15.90</u>	<u>19.45</u>	<u>3.55</u>
Total Personnel	238.20	239.90	243.45	3.55

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	9.52	4.25%
Positions and Percentage Vacant as of 12/31/12	15.00	6.70%

- The fiscal 2014 allowance does not reflect any changes in regular full-time positions; however, contractual staff does increase by 3.55 full-time equivalents.
- At the end of calendar 2012, the department reported 15.0 vacant positions, above the amount needed to meet budgeted turnover.

Analysis in Brief

Major Trends

New Measure Tracks Job Creation: The department aims to develop and maintain a pipeline of projects resulting in facility location decisions and other projects that create or retain jobs. According to the department's tracking procedures, over 10,000 jobs have been created or retained in each of the last two fiscal years.

Small Increase in Jobs Created from the Biotechnology Tax Credit: The Maryland Biotechnology Investment Tax Credit program seeks to encourage private investment in seed and early stage biotechnology companies. The program's performance measures show that the credit has resulted in 33 jobs in fiscal 2012, a small increase from fiscal 2011. The program also resulted in a private to State investment of 2.4 to 1.0 in fiscal 2012.

Issues

Progress of InvestMaryland: Fiscal 2014 marks the second of three years in which the department is using funds acquired from an auction of tax credits to make venture capital investments under the InvestMaryland program. The auction was held in March 2012 and netted \$84 million, exceeding expectations. The InvestMaryland program calls for a portion of the funds to be allocated to private venture firms, while the remaining funds are invested directly by the department. The department dispersed its first award in September 2012 and currently reports a pipeline of over \$5 million in potential deals with early stage companies. **The Department of Legislative Services (DLS) recommends that the department update the committees on the status of the InvestMaryland program, including a discussion of its existing pipeline, the expectations for return on the State's investments, and how it will measure the success of the program.**

Delayed Implementation of the Small, Minority, and Women-owned Business Account: The department, in partnership with the Board of Public Works, is responsible for the administration of the Small, Minority, and Women-owned Business Account. The program has been funded since fiscal 2011; however, the department has yet to distribute any business assistance from the funds. The 2012 *Joint Chairmen's Report* included committee narrative requesting a report on the delays in the implementation of the program. **DLS recommends that the department explain to the committees the causes for the delay and the steps it has taken to implement the program.**

Department Targets Strategic Industries: As part of a recent reorganization, in 2012, the department created the Office of Strategic Industries and Innovations. Its mission is to focus on specified industry sectors such as life sciences and health care; clean technology and renewable energy; cybersecurity and information technology; earth and space sciences; manufacturing; and federal facilities. **DLS recommends that the department comment on its goals in focusing on specific industry sectors and how budgeted funds will further those goals. It should also comment on**

the specific industries that are targeted, with special attention to cybersecurity and the unmanned aerial vehicle industries.

Recommended Actions

	<u>Funds</u>
1. Strike the language allowing an increase in funding for the Maryland Small Business Development Financing Authority that is contingent on the Budget Reconciliation Act of 2013.	
2. Reduce the transferred funds from the Maryland Small Business Development Financing Authority.	\$ 2,000,000
3. Reduce funds for the Maryland Biotechnology Investment Tax Credit.	2,000,000
4. Add language making the funding for the CyberMaryland Investment Incentive Tax Credit program contingent upon the enactment of legislation that authorizes the credit.	
5. Delete the general funds from the Maryland Economic Development Assistance Authority and Fund.	4,500,000
6. Reduce the supplemental grant to the Baltimore Symphony Orchestra.	596,610
7. Reduce funds under the Maryland Tourism Development Board related to the War of 1812 celebration.	2,000,000
8. Limit the increase to the Maryland State Arts Council to the statutory mandate.	1,767,553
Total Reductions	\$ 12,864,163

Updates

Major Grants: The amount in major grants that is awarded by the department is increasing by slightly over 4%. Approximately \$18.4 million in grant funds is expected to be awarded in fiscal 2014.

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Department of Business and Economic Development

Operating Budget Analysis

Program Description

The mission of the Department of Business and Economic Development (DBED) is to strengthen the Maryland economy. DBED develops and implements programs that aim to generate new jobs or retain existing jobs, attract business investment in new or expanding companies, and promote the State's strategic assets. The department's primary goals are to increase business investment in Maryland; enhance business success and the competitiveness of businesses in their distinct markets; and develop a diverse economic base and ensure that all jurisdictions share in the State's economic vitality.

The department's divisions include the Office of the Secretary; the Division of Business and Enterprise Development; the Division of Marketing and Communications; and the Division of Tourism, Film, and the Arts. The department's mission and goals are supported by these four divisions:

- ***Office of the Secretary:*** The Office of the Secretary provides leadership and direction to the activities of the department and maintains working relationships with State and federal agencies, county and municipal governments, businesses, and organizations. Included in the program are the Office of the Attorney General, Equal Opportunity, and Internal Audits. Also included under the purview of the Secretary is the Maryland Biotechnology Center.
- ***Division of Marketing and Communication:*** This division promotes the State of Maryland throughout the nation as an ideal location to establish new business facilities. Business recruitment teams specializing in advanced technology, life sciences, financial services, alternative energies, and science and security promote Maryland using industry-focused business recruitment and marketing strategies.
- ***Division of Business and Enterprise Development:*** This division unites the department's field staff, small business, and finance teams to provide assistance to the Maryland business community and to the department's local economic development partners. This division also includes the Offices of International Investment and Trade, Military and Federal Affairs and the newly created Office of Strategic Industries and Innovations. The division provides access to capital markets through a variety of financing programs, worker training assistance for new and expanding businesses, and funding assistance to local jurisdictions to support infrastructure and economic development efforts.
- ***Division of Tourism, Film, and the Arts:*** This division's mission is to strengthen the State's quality of life and encourage economic development by investing in and promoting Maryland's unique historic, cultural, and natural assets.

Business Assistance Programs

DBED administers several primary business assistance programs. These programs provide resources upon which the Division of Business and Enterprise Development draws when assembling incentives to help a business expand or locate in Maryland. Following are the five main assistance programs in the operating budget:

- ***Maryland Economic Development Assistance Authority and Fund:*** The Maryland Economic Development Assistance Authority and Fund (MEDAAF) was established by the General Assembly under Chapter 301 of 1999 as a revolving loan fund. The fund provides below market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses. Businesses, in particular those in growth industries that are locating or expanding in priority funding areas, are targeted. Funds may be used for property acquisition, construction, or renovation of buildings including tenant improvements and capital equipment.
- ***Maryland Small Business Development Financing Authority:*** This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172 of 2001 broadened the Maryland Small Business Development Financing Authority's (MSBDFa) scope to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria. A private contractor, currently Meridian Management Group, Inc., reviews the financing applications for presentation to the MSBDFa board. MSBDFa has four programs: Contract Financing Program, Long-term Guaranty Program, Surety Bond Program, and the Equity Participation Investment Program.
- ***Maryland Enterprise Investment Fund:*** This program provides capital through equity purchases for start-up companies that are developing innovative technologies. Investments are limited to 25% of the company's total equity and require a three-to-one outside investor match. Individual investments, except those made in venture capital limited liability companies, are limited to \$500,000 and may not exceed 15 years in duration. Beginning in fiscal 2013, this program became the means for the department to implement the InvestMaryland program.
- ***Maryland Economic Adjustment Fund:*** This program was originally established to provide loans to new or existing companies in communities suffering from dislocation due to defense adjustments. The program has expanded and is often used as a source of direct lending assistance to small businesses. Recipient companies do not have to show that they have suffered as a result of declining defense spending, only that they are located in an area suffering from defense adjustments.
- ***Economic Development Opportunities Program Fund (Sunny Day):*** This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged.

Types of Financing Assistance

DBED's business assistance may take the form of investments, loans, grants, conditional loans and grants, and tax credits.

- **Investments:** DBED considers investments the primary tool for business assistance. The agency purchases equity from companies to provide capital for them. Investments are made with the hope of an eventual financial return, but the timing and the amount of the return are unknown.
- **Loans:** DBED loans are structured similar to conventional loans, but they have a favorable interest rate. The interest rate may scale down annually if the business is meeting or exceeding the job creation goals as agreed to in the loan documents; likewise, the rate may scale up if the business is not meeting these goals.
- **Conditional Loans and Grants:** With conditional loans, repayment is forgiven if the business achieves employment goals. In effect, conditional loans become grants if conditions are met. DBED treats conditional grants the same as conditional loans, but in some cases, a company may not want to account for DBED assistance as debt, and so they receive a conditional grant. In other cases, conditional grants are used if a company must meet a target, such as completing a feasibility study, before the funds are awarded.
- **Grants:** With grants, there is no repayment of the funds, and no conditions are attached. DBED does not often use this form of assistance.
- **Tax Credits:** The department administers several tax credit programs including the Biotechnology Investment Tax Credit; the Base Realignment and Closure (BRAC) Revitalization and Incentive Zone Program; the Brownfields Tax Incentive; the Enterprise Zone Tax Credits; the Job Creation Tax Credit; the One Maryland Tax Credit; and the Research and Development Tax Credit. Only one program, the Biotechnology Investment Tax Credit Program, is budgeted within the department's appropriation.

Performance Analysis: Managing for Results

1. New Measure Tracks Job Creation

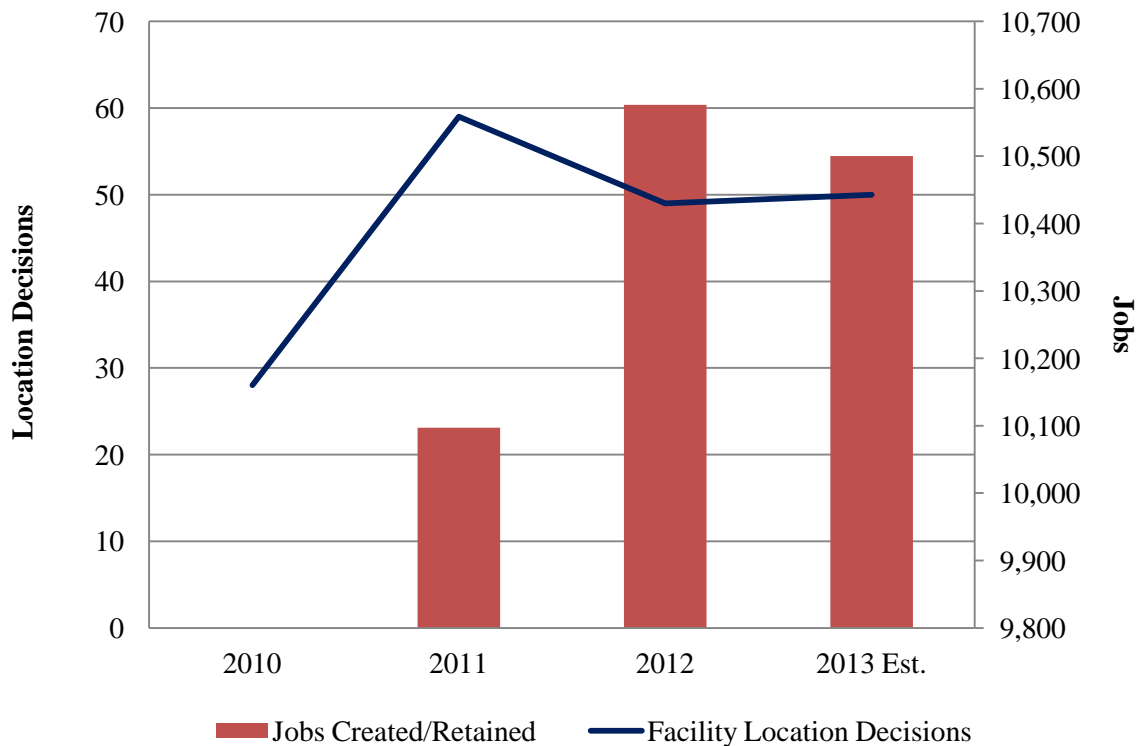
The department aims to develop and maintain a pipeline of projects resulting in facility location decisions and other projects that create or retain jobs. A facility location decision is defined as a statement by a top-level executive indicating a company's intention to locate to Maryland or to remain or expand in Maryland after considering potential locations outside the State and after intervention by the department.

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The department’s attempts to measure the impact of its activities have met with varied success. Many of the department’s performance measures only show a few years of data. This is a result of several departmental reorganizations and of prior issues with the data collection and control procedures raised by the Office of Legislative Audits. Measures continue to evolve. For example, the fiscal 2014 budget submission marks the first inclusion of a measure showing jobs created or retained as a result of departmental input. Jobs are counted as created or retained if there is a facility location decision or if the department was able to resolve a major issue for a company. The company must document the number of jobs created or retained before it may be counted.

Exhibit 1 shows the number of facility location decisions and the number of jobs created or retained. Data on jobs is not available prior to fiscal 2011. The data shows that the department was able to increase the number of jobs created or retained by 4.7% from fiscal 2011 to 2012. The increase occurred despite the decrease in the number of facility location decisions.

Exhibit 1
Impact of the Department of Business and Economic Development Assistance
Fiscal 2010-2013



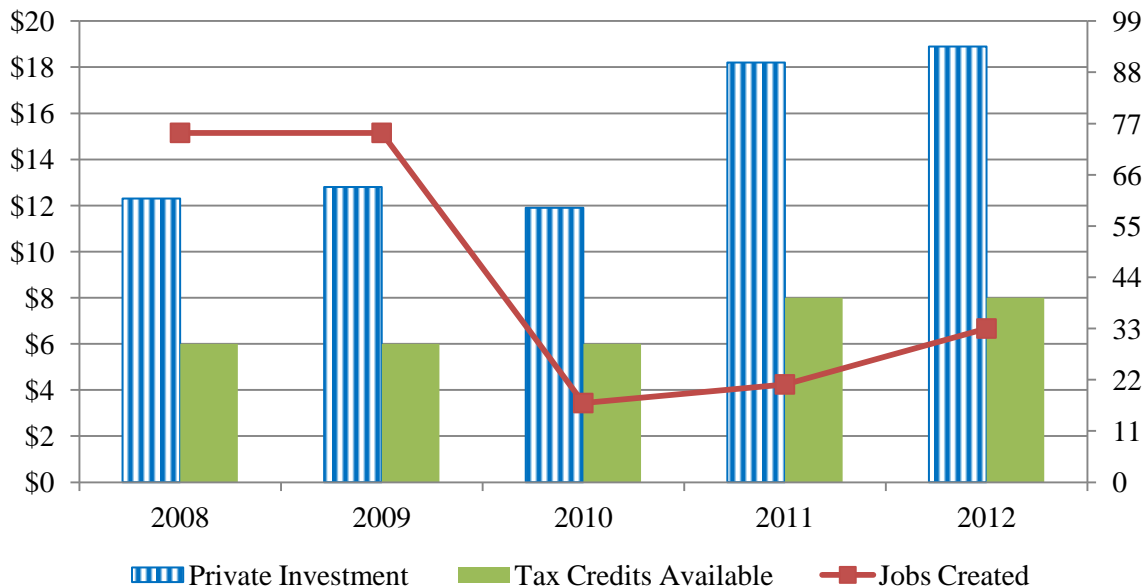
Source: Governor’s Budget Books, Fiscal 2014

2. Small Increase in Jobs Created from the Biotechnology Tax Credit

Budget language adopted in the fiscal 2010 budget bill restricted funds under the Maryland Biotechnology Investment Tax Credit program until the department submitted a report on goals, objectives, and outcome measures for the program. Prior to this, the department did not report this data through the Managing for Results (MFR) process. The language asked that the department consider including in MFR reporting the number of tax credit recipients, the amount of private investment leveraged, any new jobs created, long-term company retention data, and any other measure deemed reflective of the program’s mission.

Exhibit 2 shows a selection of the MFR measures that resulted from the required report. The State has provided \$6 million in general funded tax credits in fiscal 2008 through 2010 and \$8 million in fiscal 2011 and 2012. In fiscal 2012, for the \$8 million general fund investment, 19 qualified companies created 33 jobs. That equates to over \$242,000 per job. On average, each company that received a qualified investment in fiscal 2012 created 1.7 jobs. However, this marks an increase in jobs created from fiscal 2011.

Exhibit 2
Selected Performance Measures
Biotechnology Tax Credit
Fiscal 2008-2012
(\$ in Millions)



Source: Governor’s Budget Books, Fiscal 2010- 2014

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The department advises that job performance is not a precondition for selection or approval of qualified investors or companies. The goal of the program is not job creation but to stimulate the growth of a strategic industry sector.

Additionally, it does not appear that significant private investment is leveraged beyond the minimum that is required for the credit. The value of the credit is equal to 50% of an eligible investment made in a qualified biotechnology business during the taxable year, up to a maximum of \$250,000. The minimum of private investment needed in fiscal 2012 is \$16 million. The department reports private investment of \$18.9 million.

Fiscal 2013 Actions

Section 25 of Chapter 1 of the First Special Session of 2012 (the Budget Reconciliation and Financing Act of 2012) required the Governor to abolish at least 100 vacant positions as of January 1, 2013, saving at least \$6 million in general funds. The department's share of the reduction was 1 position and \$50,143 in general funds. The annualized salary savings due to the abolition of this position is expected to be \$67,949 in federal funds.

Proposed Deficiency

The fiscal 2014 allowance includes a fiscal 2013 deficiency of \$500,000 to complete a proposal to operate an unmanned aerial systems test site in the State. It is part of a tri-state effort that is competing for the Federal Aviation Administration designation as a test site. The department advises that these funds are not continued in the out-years. The fiscal 2013 budget bill included language that expressed the intent of the General Assembly that the department use a portion of its appropriation to collaborate with the University System of Maryland to develop an incubator program for businesses associated with the unmanned aerial vehicle industry.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2014 allowance increases by about \$13.0 million over the fiscal 2013 working appropriation. There are a number of reasons for the increase, notably the inclusion of \$3 million for a proposed cybersecurity tax credit, an increase in the Biotechnology Investment Tax Credit, and an increase in funding for the Maryland State Arts Council. The increase represents a 10.5% increase in the department's funding.

Exhibit 3
Proposed Budget
Department of Business and Economic Development
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2013 Working Appropriation	\$49,259	\$71,693	\$2,153	\$1,169	\$124,273
2014 Allowance	<u>66,444</u>	<u>68,090</u>	<u>1,782</u>	<u>1,017</u>	<u>137,334</u>
Amount Change	\$17,186	-\$3,603	-\$370	-\$152	\$13,061
Percent Change	34.9%	-5.0%	-17.2%	-13.0%	10.5%
 Contingent Reduction	 -\$21	 -\$7	 -\$1	 \$0	 -\$30
Adjusted Change	\$17,165	-\$3,610	-\$371	-\$152	\$13,031
Adjusted Percent Change	34.8%	-5.0%	-17.2%	-13.0%	10.5%

Where It Goes:

Personnel Expenses

Annualized general salary increase	\$192
Increments and other compensation	-167
Retirement system	418
Employee and retiree health insurance	259
Workers' compensation premium assessment	135
Across-the-board health insurance reduction	-30
Turnover adjustments	-43
Other fringe benefit adjustments	4

Other Changes

Newly proposed CyberMaryland Tax Credit	3,000
Biotechnology Investment Tax Credit	2,000
Grants under the Maryland State Arts Council	1,903
Small, Minority, and Women-Owned Business Account	1,233
Maryland Small Business Development Financing Authority	1,030
Tourism/arts grants primarily to the Baltimore Symphony Orchestra	602
Grants and promotional activity related to cybersecurity businesses	600
InvestMaryland funds	520

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Where It Goes:

Contractual staff	332
Advertising funds for the Maryland Tourism Development Board	295
Grants to regional economic development councils.....	215
Grant to the Maryland-Israel Development Center	140
Increase in travel	125
Maryland Small Business Development Financing Authority management contract.....	71
Other changes.....	197
Total	\$13,031

Note: Numbers may not sum to total due to rounding.

Personnel

Contribution rates for the regular employees, teachers, State Police, and Law Enforcement Officers pension plans increase in fiscal 2014. The rate increases are attributable to underattaining investment returns, adjusting actuarial assumptions, and increasing the reinvestment of savings achieved in the 2011 pension reform.

There are no changes in regular full-time positions in the fiscal 2014 allowance. Salaries decline slightly as several vacant positions have been reclassified downward. Contractual staff increases by 3.5 full-time equivalent positions. The newly reconfigured Office of Strategic Industries and Innovations claims 2.0 of the new contractual positions to work on targeted industries. Additionally, the Office of Tourism Development gained contractual staff due to the reopening of the Mason-Dixon Welcome Center. Finally, contractual staff for the Maryland Arts Council increases in order to operate the Maryland Public Arts program.

Financial Assistance Programs

Maryland Economic Development Assistance Authority and Fund

The Maryland Economic Development Assistance Authority and Fund (MEDAAF) is the department's primary and most flexible tool for business financial assistance. The fiscal 2014 allowance includes \$4.5 million in general funds in addition to \$10.5 million in special funds. This is the third year in which the program received a general fund infusion. Prior to fiscal 2012, the program had not received any general funds since fiscal 2007. It has operated on its special fund revenue and fund balance.

Exhibit 4 shows the fund balance summary for the MEDAAF for fiscal 2011 through an estimate for fiscal 2014. As has been the case in recent years, the fund balance is estimated to decline. In fact, the summary, as provided by the department, shows that the balance in the program

Exhibit 4
Maryland Economic Development Assistance and Authority Fund
Fund Balance Worksheet
Fiscal 2011-2014
(\$ in Thousands)

	<u>Actual</u> <u>2011</u>	<u>Actual</u> <u>2012</u>	<u>Est.</u> <u>2013</u>	<u>Est.</u> <u>2014</u>
Beginning Balance	\$21,168	\$20,293	\$24,222	\$13,049
Revenues				
General Funds	\$0	\$4,500	\$4,500	\$4,500
Investment Income	890	480	300	120
Interest Income	799	1,310	500	350
Loan Repayments	6,082	7,130	2,500	2,500
Loan Recoveries and Grant Repayments	636	416	500	500
Cancelled Prior Year Encumbrances	3,691	3,575	1,000	1,000
Brownsfield Local Property Tax	785	1,698	200	200
Other Income	259	1,063	10	10
Total Revenues	\$13,142	\$20,172	\$9,510	\$9,180
Total Funds Available	\$34,310	\$40,465	\$33,732	\$22,229
Expenditures				
Encumbrances/Approval Activity	\$8,945	\$11,048	\$15,000	\$15,000
Operating Expenses	462	502	593	600
Indirect Expenses	4,556	4,693	5,090	5,140
Transfers to Rural Broadband Fund	0	0	0	0
Transfer to Nano-Biotechnology Fund	0	0	0	0
Transfer to the Maryland Small Business Development Financing Authority	0	0	0	0
Prior Period Operating/Indirect Adjustment	-8	0	0	0
Total Expenditures	\$13,955	\$16,243	\$20,683	\$20,740
Transfer to General Fund	-\$62			
Ending Balance	\$20,293	\$24,222	\$13,049	\$1,489

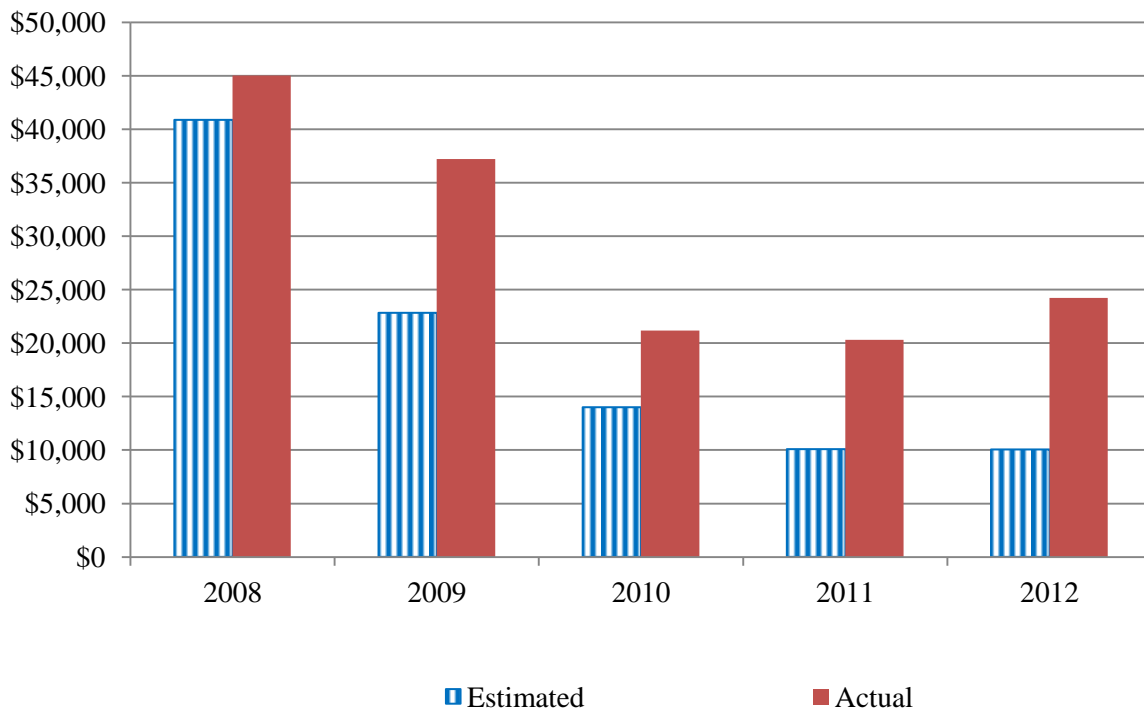
Note: Numbers may not sum to total due to rounding

Source: Governor's Budget Books, Fiscal 2014

will be just \$1.5 million by the end of fiscal 2014. However, the department has a history of underestimating the fund balances.

Exhibit 5 shows the estimated and actual fund balances for the program in each year from 2008 through 2012. While it is true that the fund balance has declined in recent years, it is also true that the department has consistently misjudged the amount of activity and repayments. In fact, the margin of error has increased. In fiscal 2012, the department underestimated its revenues by \$11.0 million and overestimated its expenditures by about \$3.2 million. The result is a fund balance that is more than double what was originally projected. The justification for the recent general fund infusions has been the projections that the fund would soon be close to depletion. However, those concerns have proved to be consistently overstated and by considerable margins. It is likely to occur again in fiscal 2013. To date, the department has encumbered \$3.2 million from the MEDAAF.

Exhibit 5
Maryland Economic Development Assistance Authority and Fund
Fund Balances – Estimates vs. Actual
Fiscal 2008-2012
(\$ in Thousands)



Source: Governor’s Budget Books, Fiscal 2010-2014

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To the extent that the department remains concerned about the availability of funds for loans and grants, it should consider lessening the “indirect expenditures” of the program. Since fiscal 2010, the MEDAAF has been subsidizing the operations of the Maryland Biotechnology Center. In fiscal 2014, almost \$2.5 million is budgeted to be diverted from the program to the center. Additionally, the program funds personnel costs in a variety of departmental units including Business Development, Military Affairs, and International Investment and Trade.

Maryland Small Business Development Financing Authority

The fiscal 2014 allowance shows an increase of just over \$1 million for the Maryland Small Business Development Financing Authority (MSBDFDA) program. MSBDFDA was established to provide financial assistance to economically and socially disadvantaged entrepreneurs. It has since been expanded to provide assistance to all businesses that do not meet the established credit criteria of private financial institutions.

Because of the labor intensive nature of the investments in the MSBDFDA portfolio, the program is run by an outside contractor. The contract is budgeted separately from the program’s investment funds under the department’s allowance. The contract increases by about \$71,000 in fiscal 2014, a 4.1% increase.

The Budget Reconciliation and Financing Act (BRFA) of 2013 includes a provision that allows the Governor to transfer \$2 million from the Small, Minority, and Women-Owned Business Account to MSBDFDA in fiscal 2014. The allowance reflects this transfer contingent upon passage of the BRFA. This is discussed more thoroughly under the Issues section of this analysis.

Economic Development Opportunity Fund

The Economic Development Opportunity Fund, or Sunny Day fund, provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined, in part, as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged. Activity under this fund has fallen significantly in recent years.

The fiscal 2014 allowance includes approximately \$1.1 million in special funds, matching the amount of funds that are budgeted in the current fiscal year. The allowance represents the third installment of a \$9.5 million incentive for the Bechtel Group, Inc. in Frederick County.

In November 2012, the department informed the Legislative Policy Committee that it intends to rescind a \$7.5 million incentive that was awarded in 2006 to MedImmune, Inc. in Frederick County. According to the department, the company did expand as was required by the conditions of the Sunny Day assistance; however, the actual expansion differed from the structure of the incentive. Accordingly, the department has cancelled the funds that were encumbered for this deal. **Exhibit 6** shows the fiscal 2013 activity in the Sunny Day Fund.

Exhibit 6
Sunny Day Fund
Fiscal 2013

Beginning Balance	\$2,584,955
Repayments	185,000
Operating Expenses	-397,578
Subtotal	\$2,372,377
Disbursements	-\$1,071,429
Cancelled Encumbrances	7,500,000
Total Funds Available	\$8,800,948

Source: Department of Business and Economic Development

Maryland Enterprise Fund

The fiscal 2014 allowance for the Enterprise Fund is \$25.6 million in special funds, reflecting the second year of funding for the InvestMaryland program. This is an increase of approximately \$520,000. The funds represent the proceeds of the auction of tax credits under the terms of the program. Of the total funding, \$4.6 million will stay in the Enterprise fund for departmental investments, and \$2.3 million is allocated to MSB DFA. The remaining \$18.7 million will be allocated to private venture firms. The progress of the InvestMaryland program is discussed under the Issues section of this analysis.

Tourism, Film, and the Arts

Maryland Tourism Development Board

The Maryland Tourism Development Board is charged with implementing State tourism marketing and development programs, in part, through grants to local and nonprofit tourism organizations. The statute mandates that the budget, as introduced, must include \$6.0 million in general funds for the board. The fiscal 2014 allowance includes \$8.5 million in general funds. Of the difference, \$2.0 million is dedicated to additional celebrations related to the War of 1812. Specifically, funds will support matching grants to nonprofit organizations and local governments and will also support the Star-Spangled Spectacular, a celebration of the Star Spangled Banner and the Battle of Baltimore. The additional \$500,000 in general funds is dedicated to targeted marketing that is related to outdoor recreation and certain historical commemorations.

Maryland State Arts Council

By statutory mandate, general funds allocated to the Maryland State Arts Council are required each year to increase by the expected percentage growth in general fund revenues. This mandate has been waived in recent years for cost containment. However, the fiscal 2014 allowance includes an increase much greater than the mandate. General funds for the arts council increase by about \$2.1 million; a 15.7% increase. The Board of Revenue Estimates predicts general fund revenue growth of 2.3%.

It should also be noted that there is an increase in general fund grants under the Assistant Secretary's allowance. The vast majority of that increase (\$596,610) is earmarked to provide additional support to the Baltimore Symphony Orchestra (BSO). BSO is already an annual beneficiary of an Arts Council grant (approximately \$1.6 million in fiscal 2013). An exhibit detailing the recent history of grants from the Arts Council can be found under the Updates section of this analysis.

Other Programs

Tax Credit Programs

The fiscal 2014 allowance includes \$3 million for a newly proposed CyberMaryland Investment Tax Credit Program. As proposed, the tax credit is for individuals or entities that invest in seed to early stage companies that are in the cybersecurity business. The business must not have been in operation for more than five years, must have at least \$100,000 in owner contributed equity, and must have at least one full-time employee. The credit is proposed to be a 33% refundable credit, not to exceed \$250,000.

It should be noted that the fiscal 2014 budget bill does not include language that would make the funding contingent upon passage of the legislation.

The fiscal 2014 allowance also includes an increase in the existing Maryland Biotechnology Investment Tax Credit program. Funding has been increased in the allowance from \$8 million in general funds to \$10 million. This increase is despite the minimal job creation attributable to the program as was discussed above.

The program was funded as of July 1, 2006, and each subsequent fiscal year through 2010 in the amount of \$6 million. Funding increased to \$8 million in fiscal 2011.

Cybersecurity

The fiscal 2014 allowance includes programmatic funds, in addition to the tax credit mentioned above, that are targeted toward the development of the cybersecurity industry. The department is reclassifying a current vacant position in order to hire a director of cybersecurity. The allowance also reflects an increase of 2 contractual staff dedicated to cybersecurity (and other targeted industries). Further, the travel allowance increases to accommodate the department's presence at national conferences

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and trade shows, primarily cyber related. Finally, the allowance also includes an increase of \$600,000 in grants, a significant portion of which will be allocated to the development of cyber incubators and to the National Cybersecurity Center of Excellence.

Miscellaneous Grants

The fiscal 2014 allowance includes increases in various grants that the department has historically provided to a variety of economic development organizations. Specifically, the allowance includes an increase of about \$140,000 for the Maryland-Israel Development center, a nonprofit organization aimed at increasing trade and investments between Maryland and Israeli businesses. Additionally, the allowance includes an increase in grant funding for the five regional economic development councils. Each council's grant was increased from \$106,900 to \$150,000 in general funds.

The Special Fund for the Preservation of Cultural Arts in Maryland is a special fund within the department that was designed to provide emergency grants for cultural arts organizations that are in danger of closing. It is funded by a portion of the admissions and amusement tax on electronic bingo machines in certain counties. The BRFA's of the last several years have diverted funding from the fund for cost containment and other budgetary purposes. The fund was never used for its intended purpose. The BRFA of 2013 includes a provision that removes the funding source of the fund and redirects it to the general fund.

Issues

1. Progress of InvestMaryland

Chapter 409 of 2011 was enacted to create the InvestMaryland program. This legislation created a State-supported venture capital program and also increased funding for the department's Enterprise Fund and MSBDFA. These programs are funded through an auction of a tax credit against the insurance premium tax for insurance companies. The newly created Maryland Venture Fund Authority oversees the program.

Of the auction proceeds, 24.75% will be retained by the department's Enterprise Fund, 67.0% will be distributed to eligible private venture firms, and 8.25% will be distributed to MSBDFA. The fiscal 2014 allowance provides \$25.6 million for the Enterprise Fund (\$18.7 million of which will be distributed to private venture firms) and \$2.3 million for MSBDFA's equity participation program. The allowance represents the second year of proceeds from the tax credit auction that netted \$84.0 million for the program in March 2012.

The legislation specifies the type of business that is eligible to receive assistance under the new program. At the time of the first investment, a business must (1) have its principal business operations in the State; (2) agree to use the investment primarily to establish or support business operations in the State; (3) have no more than 250 employees; and (4) not be primarily engaged in retail sales; real estate development; the business of insurance, banking, or lending; or professional services by accountants, attorneys, or physicians.

Progress of Investments

The progress of the program is two pronged: (1) the development of criteria and the selection of private venture firms; and (2) the evaluation and selection of companies to be awarded funds from the State's share of the program funds.

The department contracted with a consultant to identify qualifying private venture firms. The consultant was responsible for receiving and reviewing applications, conducting due diligence, developing an investment strategy consistent with statutory requirements, and presenting a recommended list of venture firms for final approval. In December 2012, the Maryland Venture Fund Authority approved its first private venture partner. The venture firm will receive \$12 million to invest in early-stage companies. To the extent that the early-stage companies post positive returns, the venture firm will return the principal to the State as well as 80% of the profits. Subsequently, two other firms have been approved. Total commitment to date is \$25 million. The authority expects to approve between six and eight venture firms in total.

The department announced in September 2012 that it has made its first award from the State's share of InvestMaryland funds. In the subsequent months, the department announced several other awards. To date, approximately \$4.7 million has been committed. The department also created the InvestMaryland Challenge program. It is designed as a \$300,000 competitive grant contest that

would spur interest and develop a pipeline for the original InvestMaryland program. The contest has three categories: information technology, life sciences, and a general category. The department expects to announce recipients in March 2013.

Proposed Changes

There is a departmental bill (Senate Bill 70) under consideration during the current legislative session to make several technical and clarifying changes to the InvestMaryland program. The department advises that the changes are necessary to match the program's requirements to the typical legal structure of many venture funds and venture industry norms. For example, the legislation would allow insurance companies that control venture funds to participate in the program, as long as the companies are not the purchaser of the tax credits. Currently, all insurance companies are barred whether or not they purchased tax credits. The bill would also delay the due date for year-end data to adhere to the standards of venture funds.

The Department of Legislative Services (DLS) recommends that the department update the committees on the status of the InvestMaryland program, including a discussion of its existing pipeline, the expectations for return on the State's investments, and how it will measure the success of the program.

2. Delayed Implementation of the Small, Minority, and Women-Owned Business Account

Statute requires that 1.5% of the proceeds of video lottery terminals (VLTs) at authorized locations across the State be deposited in the Small, Minority, and Women-Owned Business Account (SMWOBA). The account is designed to provide capital investments and loans for small, minority and women-owned businesses that are primarily located in the areas of the State with VLT facilities. The statute requires the Board of Public Works (BPW) to create the parameters of the program. However, to capitalize on its expertise and staffing experienced with business financial assistance, funds are budgeted within DBED's allowance.

The account began to accrue funds in fiscal 2011. However, the BRFA of 2012 transferred the fiscal 2011 funds to the Education Trust Fund (allowing for a general fund reduction). **Exhibit 7** shows the short history of funding for the program. By the end of fiscal 2014, over \$19.5 million is projected to accrue to the account. To date, no funds have been distributed.

The 2012 *Joint Chairmen's Report* included committee narrative expressing the concern of the budget committees that this program has yet to materialize. Specifically, the committee narrative asked the department, in consultation with BPW, to report on the causes for the delay in implementing the program, the steps taken to implement the program, and the schedule for providing financial assistance to small, minority and women-owned businesses. The report was due on December 1, 2012. It was officially received by the General Assembly on January 10, 2013, over a month past the original due date.

Exhibit 7
Small, Minority, Women-Owned Business Account Funding History
Fiscal 2011-2014
(\$ in Thousands)

	<u>2011</u>	<u>2012</u>	<u>Working Appropriation 2013</u>	<u>Allowance 2014</u>	<u>Total</u>
Small, Minority, Women-Owned Business Account	\$1,550	\$2,918	\$7,869	\$9,102	\$21,439
Transferred to the Education Trust Fund	0	-1,867	0	0	-1,867
Total	\$1,550	\$1,051	\$7,869	\$9,102	\$19,572

Source: Department of Legislative Services; Governor's Budget Books Fiscal 2014

Summary of Report

The department's report does admit that there were "numerous delays" in implementing the program; however, it does not specify the reasons for the delays. A memorandum of understanding (MOU) between BPW and the department, delegating administration of the program to the department, was not finalized until August 2012, almost two years after the first VLT facility opened and almost four years since the referendum that ratified the creation of the VLT program.

Since the MOU was finalized, a workgroup convened to review and approve the request for proposal (RFP) for eligible fund managers for the program. The workgroup paid special attention to how to define small, minority, and women-owned businesses and how to define the areas around VLT facilities in which 50% of award shall be distributed. The workgroup issued a final approval of the RFP in December 2012.

The report included a detailed timeline for the procurement of fund managers for the program. The department expects the contracts to start in April 2013. This puts into question whether any awards will be made to small, minority, and women-owned businesses in fiscal 2013.

Budget Reconciliation and Financing Act of 2013

The BRFA of 2013 includes a provision that allows the Governor to transfer \$2 million from the SMWOBA to MSBDFA, another program under the department. The fiscal 2014 allowance for MSBDFA includes the additional \$2 million, contingent on the passage of the BRFA.

Such a transfer would allow \$2 million to bypass the competitive bidding process currently underway for SMWOBA fund managers. It would be awarded to an existing contractor, a likely bidder under the current RFP. Additionally, the statute requires that 50% of SMWOBA funds be distributed to businesses in close proximity to the casino facilities in the State. The MSBDFDA program has no such requirement. This transfer would result in the likely loss of at least \$1 million in business assistance in those communities. **DLS recommends that this provision be struck from the bill and that the associated funds in the department’s allowance be deleted.**

DLS also recommends that the department explain to the committees the causes for the delay and the steps it has taken to implement the program.

3. Department Targets Strategic Industries

In 2012, the department conducted a limited reorganization that resulted in the establishment of the Office of Strategic Industries and Innovations. The office “focuses on positioning Maryland’s existing and new companies towards industry sector growth.” The targeted industry sectors identified by the department are life sciences and health care; clean technology and renewable energy; cybersecurity and information technology; earth and space sciences; manufacturing; and federal facilities.

The fiscal 2014 allowance reflects the focus on targeted industries, especially the cybersecurity industry. This includes, as mentioned above, a new cybersecurity tax credit, specialized staff, and an increased presence at national conferences and trade shows. The fiscal 2013 deficiency is also housed with this newly created office. The funds will be used to complete a proposal to operate an unmanned aerial systems test site in the State.

The fiscal 2013 budget bill included language that expressed the intent of the General Assembly that the department use a portion of its appropriation to collaborate with USM to develop an incubator program for businesses associated with the unmanned aerial vehicle industry. There is no indication that the department has collaborated with USM as described in the language. However, the department has advised that it has been working one-on-one with unmanned aerial vehicle manufacturers and is developing a more focused effort to support the industry overall.

DLS recommends that the department comment on its goals in focusing on specific industry sectors and how budgeted funds will further those goals. It should also comment on the specific industries that are targeted; with special attention to cybersecurity and the unmanned aerial vehicle industries.

Recommended Actions

1. Strike the following language to the special fund appropriation:

~~, provided that \$2,000,000 of this appropriation is contingent upon the enactment of legislation authorizing the use of revenue from the Small, Minority, and Women-Owned Business Investment Account.~~

Explanation: There is a provision in the Budget Reconciliation and Financing Act of 2013 that would allow the transfer of \$2,000,000 from the Small, Minority, and Women-Owned Business Account to the Maryland Small Business Development Financing Authority. However, that action would allow this funding to be used in a manner that is not consistent with the legislative intent of the Small, Minority, and Women-Owned Business Account, including avoiding a competitive bid process and geographic mandates for the funding.

- | | <u>Amount
Reduction</u> | |
|---|------------------------------------|----|
| 2. Reduce funds from the Maryland Small Business Development Financing Authority. This action would eliminate the funds that would be transferred from the Small, Minority, and Women-Owned Business Account. Funds would instead remain in that account. | \$ 2,000,000 | SF |
| 3. Reduce general funds under the Maryland Biotechnology Investment Tax Credit Reserve Fund. This action would level fund the program. Performance measures associated with the tax credit do not warrant an increase in funding. | 2,000,000 | GF |
| 4. Add the following language to the general fund appropriation: | | |

~~, provided that this appropriation is contingent upon the enactment of legislation authorizing the CyberMaryland Investment Incentive Tax Credit program.~~

Explanation: This language would eliminate funding for this program if the legislation authorizing the tax credit program fails to be enacted.

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	<u>Amount Reduction</u>	
5. Delete the general funds from the Maryland Economic Development Assistance Authority and Fund (MEDAAF). The department has consistently underestimated the year-end balances in fund. The MEDAAF has showed much less activity and higher repayments than estimated. As such, there is no current need to recapitalize the program with general funds.	4,500,000	GF
6. Reduce the supplemental grant that is earmarked for the Baltimore Symphony Orchestra. This organization will likely continue its regular grant from the Maryland State Arts Council of at least \$1.6 million, which is the largest single grant from the arts council.	596,610	GF
7. Reduce funds under the Maryland Tourism Development Board related to the War of 1812 celebration. The fiscal 2014 allowance would reflect the third year of funding for this celebration.	2,000,000	GF
8. Reduce the increase in funds for the Maryland State Arts Council. This action would allow for growth in general funds as mandated in the statute.	1,767,553	GF
Total Reductions	\$ 12,864,163	
Total General Fund Reductions	\$ 10,864,163	
Total Special Fund Reductions	\$ 2,000,000	

Updates

1. Major Grants

The department awarded \$16.8 million in grants in fiscal 2012, as shown in **Exhibit 8**. The exhibit also shows that another \$17.7 million is expected to be distributed as grants in fiscal 2013. Another increase is budgeted for fiscal 2014.

Exhibit 8
Department of Business and Economic Development
Summary of Major Grants
Fiscal 2012-2014

	<u>Actual</u> <u>2012</u>	<u>Appropriation</u> <u>2013</u>	<u>Allowance</u> <u>2014</u>
Office of the Secretary			
<i>Maryland Biotechnology Center</i>			
New Biotech Grant Assistance	\$1,396,595	\$1,794,205	\$1,432,487
<i>Subtotal</i>	<i>\$1,396,595</i>	<i>\$1,794,205</i>	<i>\$1,432,487</i>
Division of Business and Enterprise Development			
<i>Office of International Trade and Development</i>			
Maryland Israel Development Corp	\$139,808	\$139,808	\$275,000
World Trade Center Institute	174,962	174,962	174,962
Export Maryland – Small Business Foreign Trade Grants	302,456	394,169	399,169
University of Maryland – International Incubator	90,000		
<i>Military/Federal and BRAC Assistance</i>			
Southern Maryland Navy Alliance	26,334	26,334	26,334
Army Alliance	26,333	26,333	26,333
Montgomery County – White Oak	15,333	15,333	15,333
Fort Meade Alliance	26,334	26,334	26,334
Fort Dietrick Alliance	24,583	21,583	21,583
Maryland Maritime Alliance	28,833	28,833	28,833
Indian Head Alliance	21,583	21,583	21,583
Andrews Air Force Base, Business Roundtable of Prince George’s County		52,666	26,333
Indian Head Alliance Statewide BRAC Support	64,667	41,334	41,334
MDOT – Office of Economic Adjustment pass-through	95,541	75,910	75,910
<i>Workforce Development and Coordination</i>			
Partnership for Workforce Quality	143,212	125,000	125,000
Governor’s Workforce Investment Board	26,635	25,624	25,624
<i>Small Business</i>			
Small Business Development Center/University of Maryland – PTAP	135,000	135,000	135,000
University of Maryland – SBDC	85,400	85,400	85,400

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	<u>Actual 2012</u>	<u>Appropriation 2013</u>	<u>Allowance 2014</u>
<i>Community Development</i>			
Appalachian Regional Commission	18,026	15,270	15,270
Tri-County Council of Western Maryland	150,000	106,900	150,000
Tri-County Council of Southern Maryland	100,000	106,900	150,000
Mid-Shore Regional Council	100,000	106,900	150,000
Tri-County Council Lower Shore	100,000	106,900	150,000
Upper Shore Regional Council	50,000	106,900	150,000
Rural Maryland Council	250,000		
<i>Technology Development</i>			
Technology Council of Maryland	31,167	62,333	TBD
Greater Baltimore Technology Council	65,000	62,333	TBD
Econ. Alliance of Greater Baltimore	62,333	62,333	62,333
University of Maryland – MTES		35,420	35,420
Cybermap	115,000		
Manufacturing Extension Partnership		250,000	250,000
Patuxent Partnership – Unmanned Aerial Systems		500,000	
Chesapeake Crescent			25,000
Cyber-security Industry Support			550,000
Other/To Be Determined	163,001	223,667	124,666
<i>Subtotal</i>	<i>\$2,631,541</i>	<i>\$3,162,062</i>	<i>\$3,342,754</i>
<i>Division of Tourism, Film, and the Arts</i>			
Star Spangled 200, Inc.	\$25,000		
Maryland Tourism Education Foundation	35,000	\$25,000	\$25,000
Maryland Tourism Council	40,000	35,000	35,000
Capital Region USA, Inc.	239,500	239,500	239,500
<i>Subtotal – Tourism</i>	<i>\$339,500</i>	<i>\$299,500</i>	<i>\$ 299,500</i>
<i>Maryland State Arts Council Grants *</i>			
Baltimore Symphony Orchestra (BSO)	\$1,629,083	\$1,572,296	
The Walters Art Gallery	851,895	814,154	
The Baltimore Museum of Art	838,448	790,162	
Baltimore Clayworks	61,662	63,925	
Center Stage Associates, Inc.	432,831	430,082	
Maryland – National Capital Park and Planning	243,000	228,303	
American Visionary Art Museum, Inc.	138,894	141,534	
Olney Theater Center for the Arts	177,276	185,000	
Round House Theater, Inc.	195,132	189,433	
Maryland Hall for the Creative Arts	106,077	106,000	
Strathmore Hall Arts Center	436,297	488,298	
Maryland Symphony Orchestra	78,180	82,261	
AFI Silver Theatre and Cultural Center	60,000	70,000	
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	314,976	282,258	
Liz Lerman Dance Exchange	68,139	80,000	
Baltimore’s Festival of the Arts, Inc.	54,332		

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	<u>Actual 2012</u>	<u>Appropriation 2013</u>	<u>Allowance 2014</u>
Creative Alliance	69,000	77,363	
National Council for the Traditional Arts	52,569	50,803	
University of Maryland Smith Performance Arts Center at Maryland	270,000	275,000	
National Chamber Orchestra Society, Inc./National Philharmonic	88,000	100,000	
Everyman Theatre Inc.	106,000	100,641	
Academy Art Museum	63,654	73,418	
Annapolis Symphony Orchestra	61,554	62,344	
Class Acts Arts, Inc.	77,381	79,110	
Modell Performing Arts Center at the Lyric	65,000	80,000	
Jewish Museum of Maryland	58,000	55,844	
The Writer's Center	54,692		
Avalon Foundation Inc.	74,377	84,000	
The Ward Museum of Wildfowl Art	61,283	57,111	
Young Audiences of Maryland Inc.	80,167	90,294	
Glen Echo Park Partnership for Arts and Culture, Inc.	55,000	60,000	
Washington County Museum of Fine Arts		51,747	
Grants to All Other Organizations	2,304,674	2,187,813	
Subtotal – Grants to Arts Organizations	\$9,227,573	\$9,009,194	\$10,751,280
Community Arts Development	2,140,134	2,238,140	
Artists in Education	687,699	677,000	
Individual Artists and Other Programs	251,000	275,000	
Maryland Traditions	172,551	215,000	
Total – Arts Council*	\$12,478,957	\$12,414,334	\$14,317,675
Total DBED Grants	\$16,846,593	\$17,670,101	\$18,392,416

BRAC: Base Realignment and Closure

DBED: Department of Business and Economic Development

MTES: Maryland Technology Extension Services

PTAP: Procurement Technical Assistance Program

SBCD: Small Business Development Center

* The final distribution of Maryland State Arts Council grants to arts organizations for fiscal 2014 is not known at this time.

Source: Department of Business and Economic Development

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Business and Economic Development (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$58,609	\$33,554	\$1,760	\$199	\$94,123
Deficiency Appropriation	1,422	0	0	0	1,422
Budget Amendments	123	3,131	5,878	1,078	10,211
Reversions and Cancellations	-2,978	-8,866	-2,264	0	-14,109
Actual Expenditures	\$57,177	\$27,819	\$5,373	\$1,278	\$91,647
Fiscal 2013					
Legislative Appropriation	\$49,350	\$65,702	\$2,145	\$1,169	\$118,365
Budget Amendments	-91	5,991	8	0	5,908
Working Appropriation	\$49,259	\$71,693	\$2,153	\$1,169	\$124,273

Note: Numbers may not sum to total due to rounding.

Fiscal 2012

The original general fund appropriation in fiscal 2012 was increased by \$123,471 due to the one-time \$750 per employee bonus. Similarly, the original special and federal fund appropriation were increased for this purpose by \$41,964 and \$8,070, respectively.

Other general fund changes included a fiscal 2012 deficiency of \$2 million that provided funds to support statewide grants for the War of 1812 celebration. Secondly, a negative deficiency removed \$578,000 in general funds from the appropriation related to one-time information technology costs in fiscal 2011 which were mischaracterized as ongoing costs.

Other budget amendments further added to the original special fund appropriation. An amendment added \$60,000 in special funds for the Maryland State Arts Council. Funds were received from a nonprofit grant to assist with the design and production of the State's 9/11 memorial. Special funds also increased in fiscal 2012 due to a \$2.0 million appropriation to the Sunny Day program. Fund balance was available to allocate to the program to be used as the first payment of a retention package for the Bechtel Corporation. Additionally, another budget amendment increased fiscal 2012 special funds by \$706,875 in order to implement InvestMaryland. Funds are available from the fund balance of the Maryland Enterprise Investment Fund. This fund will be replenished with proceeds from the auction of the tax credits under InvestMaryland. The funds were used to hire 3 positions to administer the program and to contract with consultants to design the auction process and to vet venture capital firms. The InvestMaryland legislation also required that \$250,000 of the auction proceeds be forwarded to the Rural Maryland Council for operational expenses related to economic development activities. A separate budget amendment provided for these funds from the Maryland Enterprise Investment Fund. Special funds also increased by \$72,372 to fund a position that was previously funded through a federal grant.

Federal funds also increase in fiscal 2012. A budget amendment appropriated \$619,897 in federal funds to the Office of International Investment and Trade within DBED. Funds were received through a grant from the U.S. Small Business Administration (SBA) and through a grant from the Appalachian Regional Commission. SBA's State Trade and Export Promotion grant enabled the department to increase financial assistance to Maryland companies to offset the costs of participation in foreign trade show events and Governor-led foreign missions.

Another budget amendment appropriated \$5,130,000 in federal funds to various programs within DBED. The funds were provided in accordance with the federal Small Business Credit Initiative Act of 2010. Of the total funds, \$1,485,000 was appropriated to MSBDFFA and its Equity Participation Investment program. Also under this amendment, the department's Venture Fund received \$3,230,000 in order to make direct investments in technology and life science companies. Finally, the amendment provided \$495,000 in federal funds to MIDFA. The authority forwarded these funds to DHCD and its Neighborhood Business Works program.

Additionally, an amendment added federal funds for the Maryland Tourism Development Board. The board was awarded a grant from the U.S. Department of the Interior, National Park

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Service. The grant (\$40,000) was awarded under the Battlefield Protection Program and the department will use the funds to help protect the Caulk's Field battle site in Kent County.

Finally, reimbursable funds increased in fiscal 2012 due to a budget amendment that appropriated funds (\$1,078,211) from the Maryland Department of Transportation that allowed the Tourism Board to promote the State's scenic byways related to the War of 1812 celebration.

Reversions and cancelations more than offset the increases to the original appropriation. The department reverted over \$2.9 million in general funds. Of this amount, \$2.4 million related to the Maryland Industrial Financing Program. Budget language restricted this funding to be used only for grants under the Coordinating Emerging Nanobiotechnology Program. However, the department chose not to use the funds for this purpose and allowed the funds to revert. Most of the remaining reverted general funds were unspent from the defunct Film Production Rebate grant program.

Similarly, the department canceled over \$8.8 million in special funds in fiscal 2012. The majority of the canceled funds (\$5.9 million) related to the Small, Minority, and Women-Owned business account. The department has not been able to develop the parameters of this new program in a time period sufficient to provide any grants in fiscal 2012. Approximately \$1.4 million in special funds was canceled under MSBDFA. The department overestimated the funds needed for the revolving lines of credit under the program. The remaining special funds were canceled across several programs, in part due to lower than expected personnel costs.

Much of the federal funds that were appropriated through budget amendment during the fiscal year were canceled. About \$1.7 million related to the State Small Business Credit Incentive program and the department's inability to deploy all the funds. These funds are expected to be reappropriated in the current fiscal year. The remaining federal funds that were canceled were related to BRAC activities. Such activities are slowing and as a result, fewer funds were required.

Fiscal 2013

The fiscal 2013 working appropriation increased \$5.9 million over the original appropriation. The vast majority of the increase (\$5.5 million) relates to the department's InvestMaryland Program. Proceeds from the tax credit auction exceeded original estimates, and therefore, more funds were available for these programs. A budget amendment was executed to recognize the additional special funds.

Another budget amendment added \$40,000 in special funds to the appropriation for the Partnership for Workforce Quality. In fiscal 2012, the program experienced a cancellation of prior encumbered funds. As such, additional funds became available to appropriate in fiscal 2013 for the purpose of worker training grants.

The fiscal 2013 appropriation was also increase due to the cost-of-living adjustment. The department's share of this adjustment is \$134,438 across special and federal funds. Finally, the

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general fund appropriation was adjusted downward by \$91,000 due to the transfer of funds to the Department of Information Technology for website and geographic information system projects.

**Object/Fund Difference Report
Department of Business and Economic Development**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	225.00	224.00	224.00	0.00	0%
02 Contractual	13.20	15.90	19.45	3.55	22.3%
Total Positions	238.20	239.90	243.45	3.55	1.5%
Objects					
01 Salaries and Wages	\$ 20,983,035	\$ 22,038,555	\$ 22,837,038	\$ 798,483	3.6%
02 Technical and Spec. Fees	561,468	868,087	1,200,126	332,039	38.2%
03 Communication	532,051	527,596	613,410	85,814	16.3%
04 Travel	618,004	570,404	695,480	125,076	21.9%
06 Fuel and Utilities	24,803	24,076	25,120	1,044	4.3%
07 Motor Vehicles	266,919	259,766	267,157	7,391	2.8%
08 Contractual Services	9,142,876	10,818,473	11,411,899	593,426	5.5%
09 Supplies and Materials	204,389	227,696	229,563	1,867	0.8%
10 Equipment – Replacement	160,630	14,670	19,000	4,330	29.5%
11 Equipment – Additional	42,557	11,450	0	-11,450	-100.0%
12 Grants, Subsidies, and Contributions	33,733,054	39,267,826	48,719,514	9,451,688	24.1%
13 Fixed Charges	2,391,485	2,453,144	2,574,072	120,928	4.9%
14 Land and Structures	22,985,600	47,191,509	48,741,429	1,549,920	3.3%
Total Objects	\$ 91,646,871	\$ 124,273,252	\$ 137,333,808	\$ 13,060,556	10.5%
Funds					
01 General Fund	\$ 57,176,895	\$ 49,258,525	\$ 66,444,367	\$ 17,185,842	34.9%
03 Special Fund	27,819,138	71,693,121	68,090,232	-3,602,889	-5.0%
05 Federal Fund	5,373,293	2,152,660	1,782,468	-370,192	-17.2%
09 Reimbursable Fund	1,277,545	1,168,946	1,016,741	-152,205	-13.0%
Total Funds	\$ 91,646,871	\$ 124,273,252	\$ 137,333,808	\$ 13,060,556	10.5%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
Department of Business and Economic Development

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
0A Department Of Business And Economic Development	\$ 12,365,730	\$ 12,934,453	\$ 13,626,212	\$ 691,759	5.3%
0E Division Of Marketing	3,328,482	3,117,939	3,317,565	199,626	6.4%
0F Division Of Financial Assistance Programs	46,734,952	80,029,333	89,272,727	9,243,394	11.6%
0G Division Of Tourism And Promotion	29,217,707	28,191,527	31,117,304	2,925,777	10.4%
Total Expenditures	\$ 91,646,871	\$ 124,273,252	\$ 137,333,808	\$ 13,060,556	10.5%
General Fund	\$ 57,176,895	\$ 49,258,525	\$ 66,444,367	\$ 17,185,842	34.9%
Special Fund	27,819,138	71,693,121	68,090,232	-3,602,889	-5.0%
Federal Fund	5,373,293	2,152,660	1,782,468	-370,192	-17.2%
Total Appropriations	\$ 90,369,326	\$ 123,104,306	\$ 136,317,067	\$ 13,212,761	10.7%
Reimbursable Fund	\$ 1,277,545	\$ 1,168,946	\$ 1,016,741	-\$ 152,205	-13.0%
Total Funds	\$ 91,646,871	\$ 124,273,252	\$ 137,333,808	\$ 13,060,556	10.5%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.