

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$64,902	\$78,407	\$75,767	-\$2,641	-3.4%
Deficiencies and Reductions	0	-6,341	-3,464	2,877	
Adjusted General Fund	\$64,902	\$72,066	\$72,302	\$236	0.3%
Special Fund	70,489	87,945	66,162	-21,782	-24.8%
Deficiencies and Reductions	0	0	-191	-191	
Adjusted Special Fund	\$70,489	\$87,945	\$65,972	-\$21,973	-25.0%
Federal Fund	5,255	10,105	1,541	-8,564	-84.8%
Deficiencies and Reductions	0	0	-16	-16	
Adjusted Federal Fund	\$5,255	\$10,105	\$1,525	-\$8,580	-84.9%
Reimbursable Fund	186	442	266	-175	-39.7%
Adjusted Reimbursable Fund	\$186	\$442	\$266	-\$175	-39.7%
Adjusted Grand Total	\$140,832	\$170,557	\$140,065	-\$30,492	-17.9%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 budget includes a negative fiscal 2015 deficiency of \$790,042 to implement a cost containment action under the Maryland State Arts Council. The deficiency would reduce the general funds under the program to the fiscal 2014 level.
- After cost containment actions, the fiscal 2016 allowance for the Department of Business and Economic Development (DBED) declines by \$30.5 million, or 17.9%, from the fiscal 2015 adjusted working appropriation. Significant declines in special and federal funds are the primary drivers in the change in funding. Special funds decline due, in part, to the amount in

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

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available funds for the InvestMaryland Program. Similarly, federal funds decline in fiscal 2015 due to short-term grant funding in fiscal 2015.

- Partially mitigating the decrease in the allowance is the inclusion of \$8.5 million in new special funds for the E-Innovation Initiative Program.

Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	222.00	221.00	221.00	0.00
Contractual FTEs	<u>18.25</u>	<u>18.25</u>	<u>17.95</u>	<u>-0.30</u>
Total Personnel	240.25	239.25	238.95	-0.30

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	9.88	4.47%
Positions and Percentage Vacant as of 1/1/15	18.00	8.14%

- The department's regular positions remain unchanged from fiscal 2016; however, the allowance reflects a small net decline in contractual staff.
- The department has 18 vacant positions; well above the amount required to meet its fiscal 2016 budgeted turnover.

Analysis in Brief

Major Trends

Department Increases Its Job Creation Goal: The department aims to develop and maintain a pipeline of projects resulting in facility location decisions and other projects that create or retain jobs. As a result of its actions, the department reports that 10,627 jobs were created or retained in fiscal 2014. The department increased its job creation goal to 11,500 in fiscal 2015 and 2016.

Value of Maryland Exports: The department's Office of International Trade and Investment aims to promote the export efforts of Maryland businesses and to increase the dollar value of international sales transactions. The value of Maryland exports increased by over 21% in fiscal 2014.

Biotechnology Investment Tax Credit: The Maryland Biotechnology Investment Tax Credit program aims to spur seed and early stage investment in eligible Maryland biotechnology companies. The popularity of the program has remained very high, and funds have grown over the life of the program. Job creation is not considered to be a goal of the program.

Issues

Maryland Economic Development and Business Climate Commission: In March 2014, the President of the Senate and the Speaker of the House of Delegates appointed a private-sector commission to focus on the State's economic development structure and incentive programs in order to make recommendations to the Presiding Officers. In February 2015, the commission submitted its interim report to the General Assembly, which included 32 recommendations on how to improve the business climate in the State. Many of the recommendations related to the organizational structure and activities of DBED. **The Department of Legislative Services (DLS) recommends that the department comment on the principal findings and recommendations contained in the report from the Maryland Economic Development and Business Climate Commission. Specifically, the department should comment on the proposed new structure and on any steps already taken to address any perceived shortcomings in the State's business climate.**

Tax Credit Evaluation Act – Maryland Film Production Activity Tax Credit: Chapter 568 and 569 of 2012 established the Tax Credit Evaluation Act, which set out a legislative process for evaluating certain tax credits. DLS issued its draft evaluation of the Maryland Film Production Activity Tax Credit in October 2014. The evaluation included numerous recommendations that impact how the department administers and monitors the credit. **DLS recommends that the department briefly respond to the recommendations and any steps taken to improve the incentive.**

New Initiatives: E-Innovation Initiative Program and Regional Institution Strategic Enterprise Zones: Legislation was enacted in the 2014 session that established two new programs under the department's purview: The E-Innovation Initiative Program and the Regional Institution Strategic Enterprise Zone Program. The department is in the early stages of implementing the two programs.

DLS recommends that the department brief the budget committees on its activities under the two new programs. Additionally, based on the delay that often results from the first year of any program, DLS recommends delaying the funding for the awards under the E-Nnovation Initiative Program until fiscal 2017. This would entail a reduction to the special and general funds within the fiscal 2016 allowance and a provision to the Budget Reconciliation and Financing Act of 2015 to transfer the special funds to the general fund.

Delayed Progress on State Small Business Credit Initiative: In 2011, the department was awarded a total of \$23 million from the U.S. Department of the Treasury in support of the State Small Business Credit Initiative Act of 2010. This federal program was designed to utilize existing state economic development programs to increase the capital available to small business. The department has experienced significant difficulty in deploying the federal funds on a timely basis; in fact, the department is in danger of losing a significant portion of the funds. **DLS recommends that the department comment on the State Small Business Credit Initiative and the significant delay in disbursing the funds. DLS further recommends that funds be withheld under the department’s Financing Program Operations until a report is submitted on progress to disburse the federal funds.**

Recommended Actions

	<u>Funds</u>
1. Add language restricting funds until a report is submitted on the State Small Business Credit Initiative.	
2. Strike the general fund reduction to the CyberMaryland Investment Incentive Tax Credit Program that is contingent on the Budget Reconciliation and Financing Act of 2015.	
3. Reduce funds under the CyberMaryland Investment Incentive Tax Credit Program.	\$ 500,000
4. Delete funding under the Maryland E-Nnovation Initiative.	8,500,000
5. Reduce general funds for the Maryland Tourism Development Board.	2,157,767
6. Strike the general fund reduction to the Maryland State Arts Council that is contingent on the Budget Reconciliation and Financing Act of 2015.	
7. Reduce the funding for the Maryland State Arts Council.	1,361,571
Total Reductions	\$ 12,519,338

Updates

Report on Customer Service: The 2014 *Joint Chairmen’s Report* included narrative that requested a report on how agencies address customer service training. Stemming from the Speaker’s Business Climate Workgroup, this narrative aims to address concerns about inconsistent and unresponsive interactions between the business community and State agencies. The narrative specifically requests information from the State Highway Administration; the Maryland Department of the Environment; the Department of Labor, Licensing, and Regulation; and DBED. The report was submitted in January 2015.

Major Grants: The department expects to award over \$25.2 million in various economic development, tourism, and arts related grants in fiscal 2016.

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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. The 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 (MSBDF) 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 MSBDF board. MSBDF 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 Revitalization and Incentive Zone Program; the Brownfields Tax Incentive; the Enterprise Zone Tax Credits; the Job Creation Tax Credit; the One Maryland Tax Credit; the CyberMaryland Investment Incentive Tax Credit, the Film Production Incentive Tax Credit, and the Research and Development Tax Credit. Only two programs, the Biotechnology Investment Tax Credit program and the CyberMaryland Investment Incentive Tax Credit, are budgeted within the department's appropriation.

Performance Analysis: Managing for Results

1. Department Increases Its Job Creation Goal

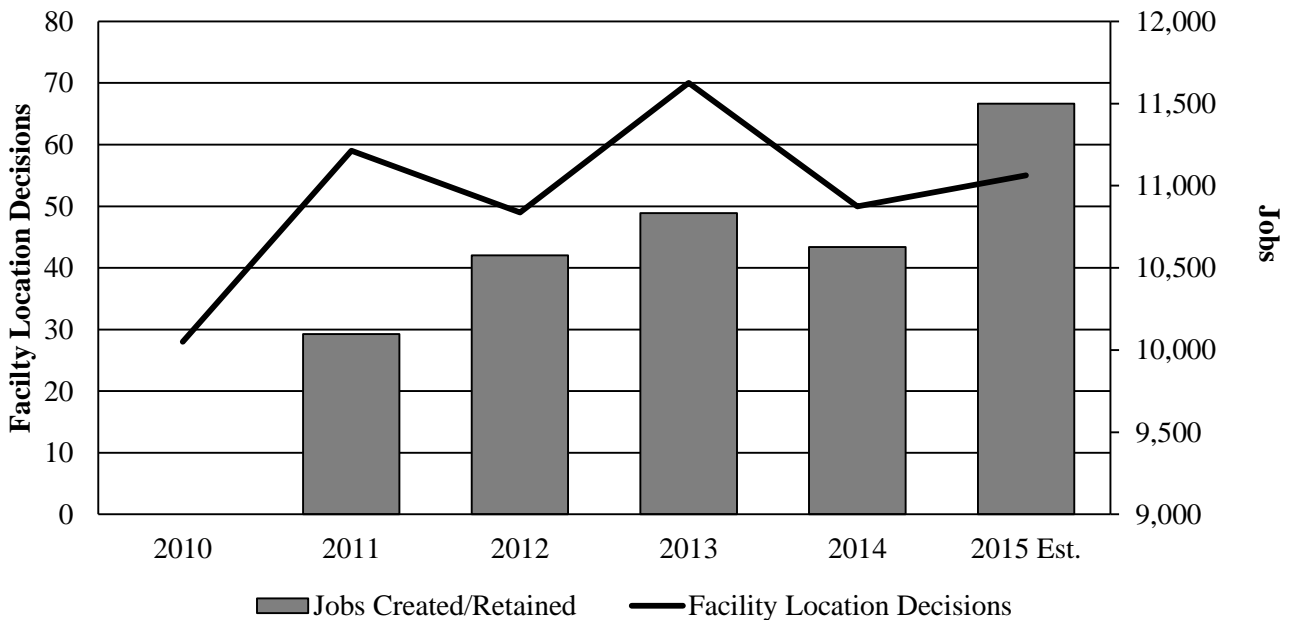
The department aims to develop and maintain a pipeline of projects resulting in facility location decisions and other projects that create or retain jobs. A facility location decision is defined as a statement by a top-level executive indicating a company's intention to locate in Maryland or to remain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

the department. That intervention can include assistance related to workforce training, financing, marketing, permitting, or technical assistance.

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 marked 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. Jobs increased again in fiscal 2013 by another 0.7%. However, this measure declined in fiscal 2014 by 1.9%. Despite the recent decline, the department has revised its out-year estimates by 1,000 jobs to 11,500 in fiscal 2015 and 2016.

Exhibit 1
Impact of Departmental Assistance
Fiscal 2010-2015 Est.



Source: Governor’s Budget Books, Fiscal 2015-2016

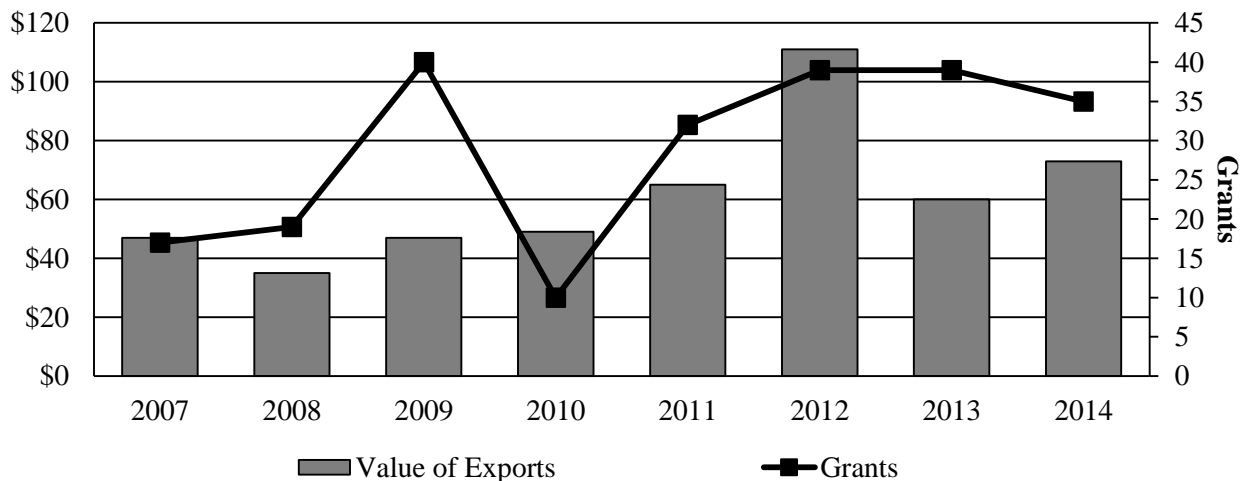
2. Value of Maryland Exports

The department’s Office of International Trade and Investment aims to promote the export efforts of Maryland businesses and to increase the dollar value of international sales transactions. The office has 11 overseas offices, 8 of which are funded by contingency contracts. The contractors in those offices only receive payment if they succeed in increasing foreign trade.

Another means to encourage international trade is the office’s ExportMD program. This program provides \$5,000 grants to Maryland companies to reimburse expenses associated with international marketing efforts. Such expenses include market research, trade show fees, translation of brochures, airfare, and website development. The department then tracks the value of private-sector export sales that result from departmental assistance under the program.

Exhibit 2 shows the value of the private-sector sales from participating Maryland companies as compared to the number of grants awarded under the ExportMD program. The number of grants rebounded in fiscal 2011 with a commensurate increase in export value in fiscal 2012. A portion of the increase in fiscal 2012 can be attributed to two significant Maryland trade missions to China and India and the significant sales that resulted for two Maryland companies. In general, however, the increased level of grants does appear to correspond with an increase in the value of Maryland exports.

Exhibit 2
Office of International Trade and Investment
Selected Performance Measures
Fiscal 2007-2014
(\$ in Millions)



Source: Governor’s Budget Books, Fiscal 2010-2015

3. Biotechnology Investment Tax Credit

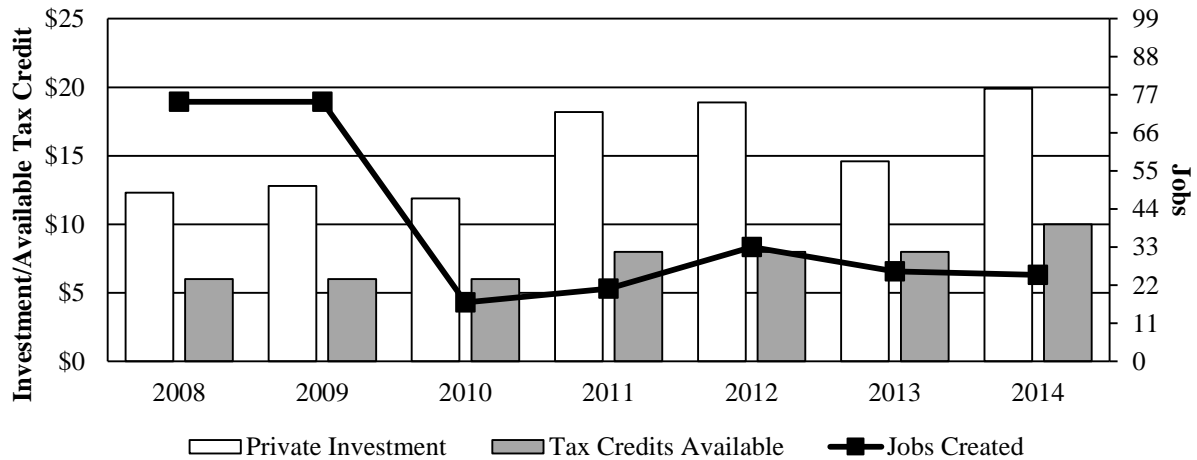
Budget language adopted in the fiscal 2010 budget bill restricted funds under the Maryland Biotechnology Investment Tax Credit program until the department submitted a report on goals, objectives, and outcome measures for the program. Prior to this, the department did not report this data through the 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.

The department reports that the Biotechnology Investment Tax Credit is a highly successful program and a “key industry incentive which supports Maryland’s robust Biotechnology industry.” Since its inception, the program has certified \$69 million in tax credits for 65 companies. The department reports that this investment has leveraged \$138 million in private investments. However, 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. So, it appears that the private investment does not exceed the minimum amount to have earned the credit.

Applications for the credit generally far exceed the available funding. Despite the popularity of the program, it does not appear that the tax credit has helped to spur many direct jobs. According to the department’s MFR submission, in 2014, for the \$10 million in appropriation for the credit, qualified companies created 25 jobs. That equates to \$400,000 in State investment per job.

Exhibit 3 shows the history of job creation under the credit. The department advises that job performance is not a precondition for selection or approval of qualified investors or companies. The department further advises that the goal of the program is not job creation but to stimulate the growth of a strategic industry sector. It should be mentioned that the tax credit will be subject to the Tax Credit Evaluation Act in 2016.

**Exhibit 3
Biotechnology Investment Tax Credit
Selected Performance Measures
Fiscal 2008-2014
(\$ in Millions)**



Source: Governor’s Budget Books, Fiscal 2010-2016

Fiscal 2015 Actions

Proposed Deficiency

The fiscal 2016 budget includes a fiscal 2015 negative deficiency of \$790,042 under the Maryland State Arts Council. This action will reduce the general funds for the Arts Council to the fiscal 2014 level as a means of cost containment.

Cost Containment

Fiscal 2015 cost containment actions for DBED are shown in **Exhibit 4**. Specifically, in July 2014, the Board of Public Works (BPW) withdrew \$81,500 in general funds, reducing the department’s funding for supplies and turnover. Second, BPW made additional general fund reductions in January 2015, reducing \$3.5 million from the Cybersecurity Tax Credit program and \$1.0 million from the Tourism Development Board. The department also participated in the 2% across-the-board reduction, relinquishing \$1,051,000 in general funds. When combined with the negative deficiency for fiscal 2015, cost containment actions reduced the 2015 appropriation by over \$6.3 million.

Exhibit 4
Fiscal 2015 Reconciliation
(\$ in Thousands)

<u>Action</u>	<u>Description</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Legislative Appropriation with Budget Amendments		\$78,489	\$87,945	\$10,105	\$442	\$176,980
July BPW		-82	0	0	0	-82
Working Appropriation		\$78,407	\$87,945	\$10,105	\$442	\$176,898
January BPW		-4,500	0	0	0	-4,500
January BPW	2% across-the-board reduction. Across the Board	-1,051	0	0	0	-1,051
Deficiency Appropriations		-790	0	0	0	-790
Total Actions Since January 2015		-\$6,341	\$0	\$0	\$0	-\$6,341
Adjusted Working Appropriation		\$72,066	\$87,945	\$10,105	\$442	\$170,557

Source: Department of Legislative Services

Proposed Budget

After cost containment actions, **Exhibit 5** shows that the fiscal 2016 allowance declines by approximately \$30.5 million from the fiscal 2015 adjusted working appropriation. The decline is driven primarily by declines in special funds and federal funds under the department’s financing programs.

Exhibit 5
Proposed Budget
Department of Business and Economic Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2014 Actual	\$64,902	\$70,489	\$5,255	\$186	\$140,832
Fiscal 2015 Working Appropriation	72,066	87,945	10,105	442	170,557
Fiscal 2016 Allowance	<u>72,302</u>	<u>65,972</u>	<u>1,525</u>	<u>266</u>	<u>140,065</u>
Fiscal 2015-2016 Amt. Change	\$236	-\$21,973	-\$8,580	-\$175	-\$30,492
Fiscal 2015-2016 Percent Change	0.3%	-25.0%	-84.9%	-39.7%	-17.9%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$639
Increments and other compensation annualization (prior to cost containment)	329
Retirement system	323
Reclassifications	139
Workers' compensation premium assessment	123
Other fringe benefit adjustments	57
Turnover adjustment	35
Section 21: Abolition of employee increments.....	-303
Section 20: 2% salary reduction	-422

Other Changes

First year of funding for the E-Innovation Initiative Program	8,500
Increase in CyberMaryland Tax Credit from fiscal 2015 cost containment level	1,000
Preservation of cultural arts	750
Net change from fiscal 2015-2016 across-the-board reduction.....	33
Miscellaneous economic development organization grants	-308
Special funds for the Maryland Economic Adjustment Fund.....	-400
One-time studies in fiscal 2015	-449
Federal funds for the Maryland Industrial Development Financing Authority	-500
Funds available for the Small, Minority, and Women-Owned Business Account	-508
Sunny Day – canceled project	-1,071
Tourism Board – Elimination of funds related to War of 1812 Celebrations.....	-2,020
Decline in special funds available under the MEDAAF.....	-6,500
Loss of funds budgeted for the Film Production Incentive Program.....	-7,500
Venture Fund/InvestMaryland funding	-22,104

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Where It Goes:

Other -335

Total **-\$30,492**

MEDAAF: Maryland Economic Development Assistance Authority and Fund

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes a general 2% reduction, elimination of employee increments, and a 2% salary reduction. The department’s share of these reductions is \$3,671,025 in general, special, and federal funds.

Financial Assistance Programs

Maryland Economic Development Assistance Authority and Fund

The MEDAAF is the department’s primary and most flexible tool for business financial assistance. The fiscal 2016 allowance includes \$7.4 million in general funds and \$12.6 million in special funds. This represents a \$6.5 million decline in special funds from fiscal 2015, but flat funding for general funds. It is also the fifth year in which the program has received a general fund infusion. Prior to fiscal 2012, the program had not received any general funds since fiscal 2007. It had operated on its special fund revenue and balance.

Exhibit 6 shows the fund balance summary for the MEDAAF for fiscal 2013 through an estimate for fiscal 2016.

The summary shows that the department is increasing the activity in the fund. In fiscal 2012, the department committed \$11.8 million in program activity, an increase from \$8.9 million in activity in fiscal 2011. In fiscal 2013, the department expended \$15.0 million for business assistance from the fund and in fiscal 2014, over \$18.3 million was encumbered. As has been the case in recent years, the summary, as provided by the department, shows that the balance in the program is estimated to decline. However, the department has a history of underestimating its fund balances.

Exhibit 7 shows the estimated and actual fund balances for the MEDAAF in each year from fiscal 2008 through 2014. While it is true that in some years the fund balance has declined, it is also true that the department has consistently misjudged the amount of activity and repayments. The justification for recent general fund infusions has been the projections that the fund would soon be close to depletion. However, the exhibit demonstrates how these projections and, therefore, the justifications for additional general funds, were questionable.

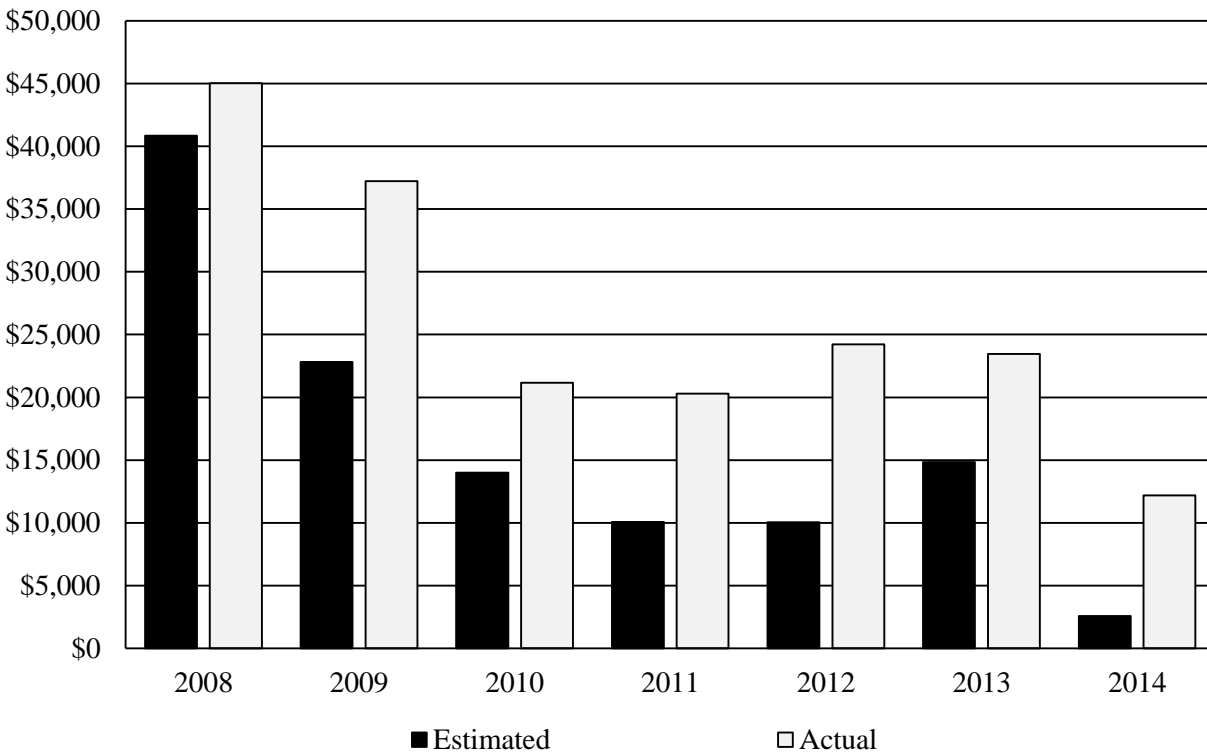
Exhibit 6
Maryland Economic Development Assistance and Authority Fund
Fund Balance Worksheet
Fiscal 2013-2016 Est.
(\$ in Thousands)

	<u>Actual</u> <u>2013</u>	<u>Actual</u> <u>2014</u>	<u>Est.</u> <u>2015</u>	<u>Est.</u> <u>2016</u>
Beginning Balance	\$23,476	\$23,468	\$12,191	\$6,438
Revenues				
General Funds	\$4,500	\$273	\$7,423	\$7,423
Investment Income	423	498	1295	737
Interest Income	699	465	388	286
Loan Repayments	7,369	2,980	4087	4294
Loan Recoveries and Grant Repayments	762	41	553	533
Cancelled Prior Year Encumbrances	6,131	2,655	3000	3000
Brownsfield Local Property Tax Cont.	0	2,754	529	1137
Other Income	304	457	323	321
Total Revenues	\$20,188	\$10,123	\$17,598	\$17,731
Total Funds Available	\$43,664	\$33,591	\$29,789	\$24,169
Expenditures				
Encumbrances/Approval Activity – Other	\$15,000	\$18,349	\$20,000	\$20,000
Rescissions of New Approvals	0	0	0	0
Operating Expenses	488	514	644	664
Indirect Expenses	4,743	2,553	\$2,707	\$2,630
Transfers to Rural Broadband Fund	0	0	0	0
Transfer to Nano-biotechnology Fund	0	0	0	0
Restricted Appropriation	0	0	0	0
Prior Period Operating/Indirect Adjustment	-35	-16	0	0
Total Expenditures	\$20,196	\$21,400	\$23,351	\$23,294
Ending Balance	\$23,468	\$12,191	\$6,438	\$875

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

Source: Governor’s Budget Books, Fiscal 2016

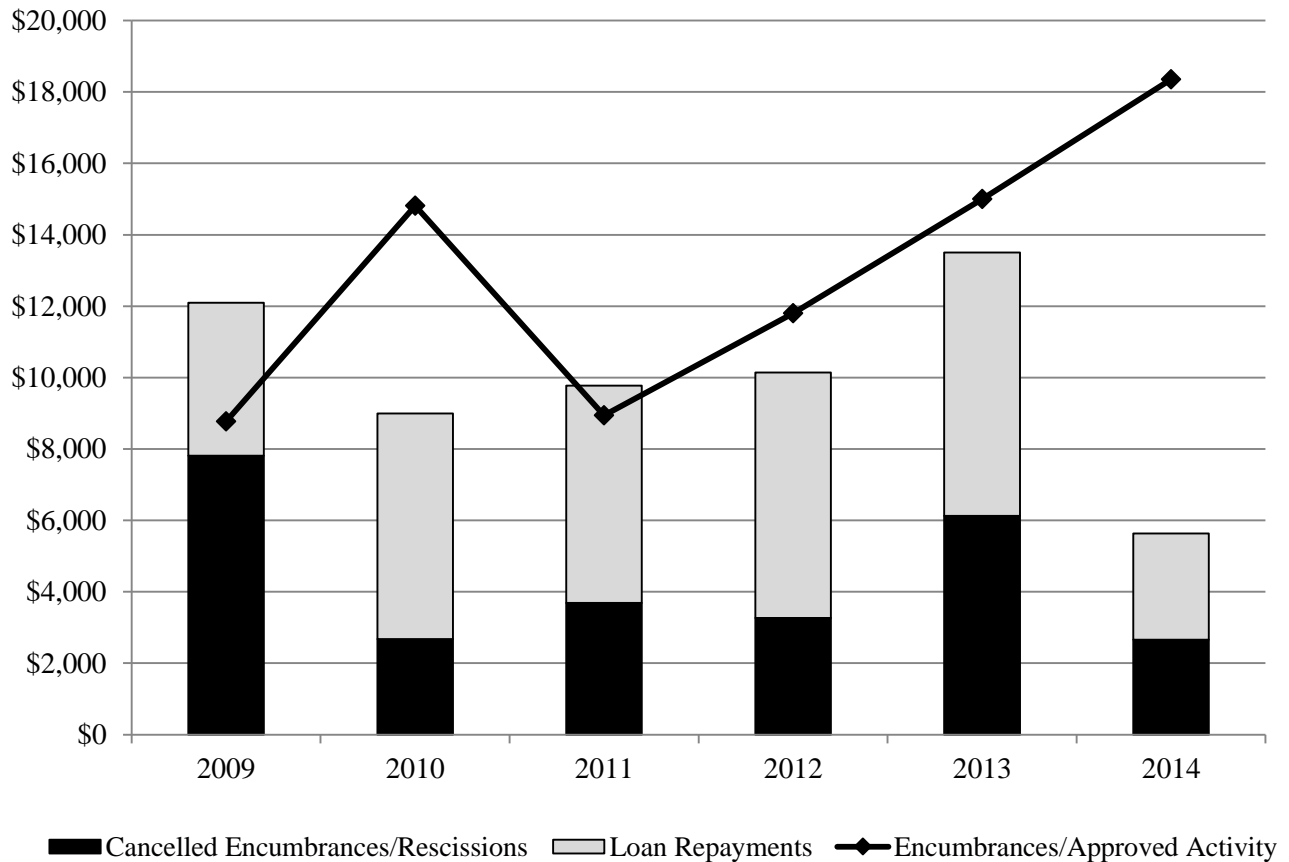
Exhibit 7
Maryland Economic Development Assistance Authority and Fund
Fund Balances – Estimates vs. Actual
Fiscal 2008-2014
(\$ in Thousands)



Source: Governor’s Budget Books, Fiscal 2010-2015

The department is often required to commit funds to a project very early in the project stage. This provides the business with some level of financial comfort before it proceeds with its financial outlay. However, in some cases, the project fails to move forward, and funds remain in the MEDAAF. In recent years, the department has significantly underestimated the amount of funds that were canceled or rescinded; thus understating MEDAAF’s ending fund balance. However, in fiscal 2014, the department significantly improved its projections on the amount of funds that will be canceled. Additionally, fewer projects were canceled in fiscal 2014, likely due to improvements in how the department manages its deal flow. For example, in fiscal 2014, 14% of committed funds were canceled, compared to 41% in fiscal 2013. Additionally, the department has improved its projections of amount of funds to be repaid into the fund. As shown in **Exhibit 8**, activity has increased under the fund, and loan repayments and canceled projects declined in fiscal 2014. Therefore, the estimates of declining fund balances are much more realistic.

Exhibit 8
Maryland Economic Development Assistance Authority and Fund
Encumbrances and Repayments
Fiscal 2009-2014
(\$ in Thousands)



Source: Department of Business and Economic Development

Maryland Enterprise Fund

The fiscal 2016 allowance for the Enterprise Fund is \$15.1 million in special funds, reflecting a decrease of \$22.1 million. The program declines, in part, due to the final year of original InvestMaryland funding in fiscal 2015. The Enterprise Fund houses the InvestMaryland Program which is a State-supported venture capital program funded through an auction of a tax credit against the insurance premium tax for insurance companies. A portion of the funds are invested in-house and a portion are invested by private venture firms on behalf of the State.

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The department announced in September 2012 that it has made its first award from the State’s share of InvestMaryland funds. Since then, the department announced a total of 26 total awards. As of November 2014, approximately \$9.7 million has been disbursed, with an additional \$22.3 million encumbered. According to the department, these companies have created or retained 2,740 Maryland jobs with average annual wages of over \$90,000. The program earns investment income from its activity; thereby enabling an evergreen status for the program. From fiscal 2013 through 2016, the department reports investment earnings of over \$7.9 million. The fiscal 2016 allowance includes special funds from fund balance and from investment earnings.

The department also created the InvestMaryland Challenge program. Fiscal 2016 is the fourth year of the 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.

Also contributing to the overall decline in fiscal 2016 funding of the Enterprise Fund is the short-term infusion of federal funds in fiscal 2015. The fiscal 2015 appropriation included \$7.3 million in federal funds under the U.S. State Small Business Credit Initiative. This federal program was designed to utilize existing state economic development programs to increase the capital available to small business. The federal program is discussed further under the Issues section of this analysis.

E-Nnovation Initiative Program

Chapter 533 of 2014 established the E-Nnovation Initiative Program under the department to provide funds to nonprofit institutions of higher education to create research endowments. Funding is provided to the program through a portion of the admissions and amusement tax on electronic bingo and electronic tip jars and through general funds. Fiscal 2016 marks the first year of funding for the program. The allowance includes a total of \$8.5 million for the program – \$8.0 million in special funds and \$500,000 in general funds. This issue is discussed further under the Issues section of this analysis.

Tax Credits

The fiscal 2016 allowance includes \$2.0 million for the CyberMaryland Investment Tax Credit Program, meeting the mandated level in statute. However, there is a contingent reduction of \$500,000 under the program and a corresponding provision in the Budget Reconciliation and Financing Act (BRFA) of 2015 to set the mandated level of funding in fiscal 2016 only to \$1.5 million. This is still \$1.0 million above the fiscal 2015 funding level after adjusting for cost containment. Fiscal 2014 was the first year of the program that has been described as “confusing.” At a December 2013 cyber forum, potential applicants expressed uncertainty about who was eligible or how to apply. The confusion may arise, in part, because the credit differs from the department’s popular Biotechnology Investment Tax Credit Program. The biotechnology tax credit offers a credit *to the investor* to invest in a company. The new cyber tax credit offers the credit *to the company* for a qualified investment. To date, a net of only \$1 million in tax credit certifications have been awarded. As noted earlier, due to the slow start of the program, as part of the Administration’s cost containment initiative, BPW withdrew \$3.5 million from the fiscal 2015 funding for the credit leaving only \$500,000.

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The allowance also includes \$12 million in general funds for the Biotechnology Investment Tax Credit Program; flat funding the program. This program was funded as of July 1, 2006, and each subsequent year through fiscal 2010 in the amount of \$6 million. Funding was increased to \$8 million in fiscal 2011 and again to \$10 million in fiscal 2014.

Small, Minority, and Women-Owned Business Account

Statute requires that 1.5% of the proceeds of video lottery terminals (VLT) 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 areas of the State with gaming facilities. The fiscal 2016 allowance includes \$10.6 million in special funds for the program, reflecting the latest estimates of VLT revenue. This represents an approximate \$508,000 decrease from the amount budgeted in fiscal 2015.

Though the program began to accrue revenues in fiscal 2011, a slow implementation led to a delay of several years before the program became operational. However, since 2013, BPW has approved the distribution of \$16.9 million of program funds to seven fund managers who are responsible for making the program's investments. To date, the fund managers have awarded about \$10.2 million over 120 projects. As part of a related recommendation in another analysis, the Department of Legislative Services (DLS) is recommending that the BRFA of 2015 be amended to permanently reduce the allocation to the SMWOBA in order to benefit the Education Trust Fund, and ultimately the general fund.

Economic Development Opportunity Fund

The 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 in the fund has fallen significantly in recent years.

The fiscal 2016 allowance reflects a decline of approximately \$1.1 million in special funds from fiscal 2015. This represents the cancellation of a multi-year incentive to the Bechtel Power Corporation located in Frederick County. In fiscal 2011, with the approval of the Legislative Policy Committee, the department approved a multi-year series of conditional loans to Bechtel. In exchange for a total of \$9.5 million in Sunny Day funds, the corporation would be required to retain 1,250 employees in Maryland until at least December 31, 2018. The first installment of the Sunny Day incentive was provided to the corporation in fiscal 2012, with two subsequent installments in fiscal 2013 and 2014 (a total of \$4.1 million). However, in October 2014, the corporation announced its intention to move the majority of its employees to its existing facility in Northern Virginia.

The BRFA of 2015 includes a provision that any loan repayment to the Sunny Day fund in fiscal 2015 and 2016 must instead be deposited into the general fund. To meet the employment conditions required for the incentive, the corporation must report its employment numbers as of each December 31. Bechtel met several of its benchmarks, and as such, a portion of the incentive it has

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received will be forgiven. However, based on the current plans for the corporation to move its employees at some point in fiscal 2015, it is estimated that approximately \$2.7 million will be “clawed back” from the corporation. The provision in the bill would deposit the clawed back funds into the general fund.

Other

The fiscal 2016 allowance declines by \$400,000 in special funds under the Maryland Economic Adjustment Fund (MEAF). 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. The MEAF program has not been utilized in recent years due to lack of appropriations and a reduced fund balance. However, recent repayments and recoveries replenished the available funds for the program. Additionally, the U.S. Economic Development Administration, which originally capitalized the program, has informed the department that the fund balance is subject to federal sequestration policies if not expended. As such, the remaining fund balance was added to the fiscal 2015 appropriation by budget amendment to allow the department to come into compliance with these federal regulations. The department is using the funds to provide working capital loans at favorable terms to small and early-stage cybersecurity companies that are located in areas affected by defense adjustments.

The fiscal 2016 allowance also declines by \$500,000 in federal funds under the Maryland Industrial Financing Authority (MIDFA). The federal funds were made available in fiscal 2015 under the short-term grant program – the State Small Business Credit Initiative. This program is discussed further 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 2016 allowance includes about \$8.1 million in general funds, a decrease of about \$2.3 million. The decrease can be attributed to the grant funds expended in fiscal 2015 dedicated to one-time events related to the bicentennial of the War of 1812, and specifically, the Battle of Baltimore, which took place in 1814. Other events included a 10-day festival that highlighted the tall ships, the Blue Angels, and a large fireworks display. Over four years, funding for the bicentennial celebrations totaled close to \$10.0 million (including federal funds). Despite the decrease in general funds, the board is still funded well above the mandate amount.

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 of growth in general fund revenues. However, the BRFA of 2015 alters the mandate to set the fiscal 2016 funding at the fiscal 2014 level. The fiscal 2016 budget bill includes both a negative fiscal 2015 deficiency and a fiscal 2016 contingent reduction in order to restrain the growth in the program. Despite the cost containment actions, the arts council will still have over \$15.4 million in general funds available for grants under the program.

The BRFA of 2015 also includes a statewide provision related to overall mandate relief that restricts mandate growth to no more than the growth in expected general fund revenues minus 1%. This provision would be applied to all mandates (excluding mandates related to education and pension contributions) that have year-to-year growth. This provision would appear to supersede the arts council mandated growth formula, thereby restricting growth in the program in the out-years. **Exhibit 9** shows the impact of the proposed provision on the growth from the existing funding level. Over the five-year period, the provision would save close to \$1.8 million in general funds.

Exhibit 9
Maryland State Arts Council
Impact of Statewide Mandate Provision
Fiscal 2016-2020
(\$ in Millions)

	Appropriation				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Existing Mandate Growth	\$16.8	\$17.5	\$18.1	\$18.7	\$19.4
Growth Under Section 13	16.8	17.3	17.8	18.1	18.6
Savings	0.0	0.2	0.3	0.5	0.7

Note: The fiscal 2016 appropriation excludes the contingent reduction.

Source: Department of Legislative Services

Preservation of Cultural Arts

The Special Fund for the Preservation of Cultural Arts in Maryland is a special fund within the department that was originally designed to provide emergency grants for cultural arts organizations that are in danger of closing. It has since been restructured to be much more flexible in its funding capacity. It is funded by a portion of the admissions and amusement tax on electronic bingo machines in certain counties. The BRFAs 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. For example, the BRFA of 2014 included a provision to allow the program's fund to be used to supplement the State's film incentive program as needed. In fiscal 2015, a budget amendment did transfer funds (\$750,000 in special funds) under the program to the film incentive program. As such, the fiscal 2016 allowance shows an increase for cultural arts due to the return to the normal funding level.

Film Production Incentive Program

The fiscal 2016 allowance shows a decrease in funds for the Film Production Rebate Program of \$7.5 million in special funds. Since 2011, the department's film industry incentive was no longer accounted for as an appropriation in the budget. Chapter 516 of 2011 converted the budgeted Film Production Rebate program into a tax credit program. The tax credit was capped at \$7.5 million per year in fiscal 2012 and 2013. Chapter 28 of 2013 increased that cap to \$25.0 million in fiscal 2014 to accommodate the productions of several film projects. In fiscal 2015, the program was again capped at \$7.5 million; however, the BRFA of 2014 included a provision to allow funding from the department's other programs (Sunny Day and the Preservation of Cultural Arts) to supplement the incentive. A budget amendment in fiscal 2015 transferred \$7.5 million in to the film program to supplement the nonbudgeted tax credit program.

The BRFA of 2015 also includes a provision that reduces the film tax incentive cap from \$7.5 million to \$6,816,237 in fiscal 2016 only. This represents the amount that the department has committed to actual projects in fiscal 2016. The amount under the original cap (\$683,763) is being dedicated to cost containment. It should further be noted that this program is scheduled to sunset in fiscal 2016. This issue is discussed in further detail in the Issues section of this analysis.

Issues

1. Maryland Economic Development and Business Climate Commission

In March 2014, the President of the Senate and the Speaker of the House of Delegates appointed a private-sector commission to focus on the State’s economic development structure and incentive programs in order to make recommendations to the Presiding Officers. The commission met eight times in seven locations across the State. Over 100 witnesses appeared before the commission representing businesses, State and local economic development organizations, higher education, labor, workforce development organizations, and other interested parties. In February 2015, the commission submitted its interim report to the General Assembly, which included 32 recommendations on how to improve the business climate in the State. Many of the recommendations related to the organizational structure and activities of DBED.

The commission found that Maryland businesses have multiple financial and technical assistance programs available to enable growth and success. However, too often, businesses are unaware of these programs or are confused as to how to apply for or utilize them. A primary finding of the commission is that State economic development agencies are not organized in a manner that (1) reflects the importance of their mission; (2) facilitates accountability; or (3) encourages ease of navigation. The following are the primary recommendations that would significantly alter the structure of the department and its activities.

- **Elevate and consolidate economic development in the State by creating a new structure headed by a Secretary of Commerce.**

Economic development activities cut across many State agencies. Furthermore, the business climate in the State can be profoundly affected by State agencies whose activities are unrelated to economic development (*e.g.*, environmental protection and transportation). The commission heard testimony from numerous businesses to this effect. The commission, therefore, recommends a substantial change to the leadership structure of economic development in Maryland.

The department is led by a Secretary/Deputy Secretary structure similar to many other State agencies. In fact, the Secretary is 1 of 22 Secretaries who serve on the Governor’s cabinet. This flat configuration makes it extremely difficult for any Secretary to intervene on behalf of the business community. Rather than have economic development programs in the State led by a regular agency Secretary, the economic development programs should be consolidated under a newly created Secretary of Commerce. The Secretary should be housed within the Governor’s office to ensure that business climate and economic development policy receives increased attention. This configuration will further allow the Secretary to work across State agency lines to resolve business climate issues. Additionally, the commission believes that this new position will serve as a powerful signal that the issues important to the business community will be engaged by both the Administration and the General Assembly.

- **Empower a newly designed Maryland Economic Development Commission.**

Maryland’s economic development strategy is established by the Maryland Economic Development Commission (MEDC). As set by statute, the purpose of MEDC is also to oversee DBED’s efforts to support the creation, attraction, and retention of businesses and jobs in the State. The commission found that MEDC needs to be strengthened if it is to become the visible standard bearer for the State’s economic development policy, programs, and progress. This desired result will necessitate an expansion of MEDC’s statutory responsibilities to include specific oversight of DBED’s operational activities. Further, the commission found that MEDC could be strengthened by expanding membership to include representatives from those State agencies that have primary impact on the economic health of the State, as well as representatives from the General Assembly. An executive committee could be created to address cross State agency issues related to the State’s business climate and economic development policy.

- **Realign economic development programs between DBED and the Maryland Technology Development Corporation to build upon the strengths of each and to clarify where to access State business development resources.**

Based on its history of success and on its particular strength in fostering entrepreneurship, the commission recommends that the State consolidate its early-stage programs under the Maryland Technology Development Corporation’s (TEDCO) purview. Specifically, this consolidation would transfer the Maryland Venture Fund, the InvestMaryland Program, and the BioMaryland Center from DBED to TEDCO, thereby creating one point of contact for early-stage businesses.

Under this management model, DBED would continue in its current role of focusing on supporting established firms and entities within the State. The transfer of entrepreneurial programs will enable DBED to focus its resources to bolster the business climate and economic development and to respond to the needs of existing businesses.

- **Bolster outreach efforts by expanding private participation in the State’s marketing efforts.**

The commission also found that the State’s marketing strategy for economic development and business growth has not adequately communicated the State’s strengths and capacity to be a leader in providing economic opportunities, particularly in an innovation economy.

Marketing and outreach efforts related to economic development and business growth need to be as nimble and responsive as private businesses are to changes in market demands. However, current marketing efforts, housed as a division within DBED, are subject to State agency hierarchies as well as State procurement and hiring practices, both of which are sometimes inconsistent with the demands of public markets. Further, the commission was concerned that the marketing budget competes ineffectively for State funding. For example, DBED’s total advertising budget in fiscal 2014 was \$3.1 million; however, a significant portion of the funding

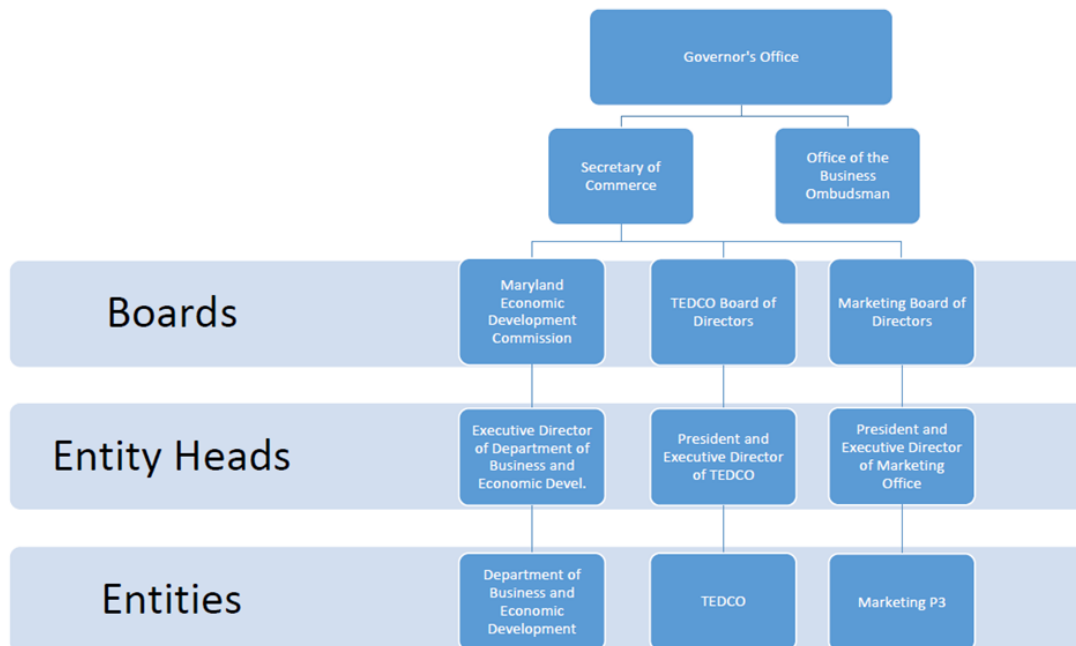
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was earmarked by statute for DBED’s tourism development activities. The general advertising budget for the marketing division was thus less than \$350,000 in fiscal 2014.

Marketing and business recruitment in the State would benefit from the greater experience that would be available through a public-private partnership. Other states, to varying degrees, have privatized aspects of their economic development efforts. In most cases, this has included either creating a quasi-public entity or contracting with a private business to create a branding strategy and to market the State’s attributes to out-of-state businesses and entrepreneurs. The creation of a governing board for marketing with significant private-sector membership would further leverage the organizational and financial support of the business community. Additionally, having a small, nimble, and separate entity dedicated to marketing and out-of-state recruitment will leave the State economic development agency free to respond to current business needs.

Exhibit 10 depicts the new organization of the State’s economic development entities. Under the structure that the commission recommends, each entity would have a board to guide its policies and monitor its activities. The exhibit also demonstrates the elevation of the new Secretary of Commerce’s office. The three entities include the newly realigned DBED and TEDCO, as well as the creation of a public/private marketing entity.

Exhibit 10
Recommended State Economic Development Organization



Source: Maryland Economic Development and Business Climate Commission

Exhibit 10 represent only the primary organizational recommendations related to the department. The commission also touched on other aspects of DBED’s purview, including expanding the Central Business Licensing System and the Partnership for Workforce Quality.

The work of the commission has resulted in the introduction of five pieces of legislation this session, including a bill to create a Secretary of Commerce and to reorganize the department. Further, the commission has been extended through calendar 2015 in order to continue its evaluation of economic development incentives and the State’s tax structure in general.

DLS recommends that the department comment on the principal findings and recommendations contained in the report from the Maryland Economic Development and Business Climate Commission. Specifically, the department should comment on the proposed new structure and on any steps already taken to address any perceived shortcomings in the State’s business climate.

2. Tax Credit Evaluation Act – Maryland Film Production Activity Tax Credit

Background of the Tax Credit Evaluation Act

Since the mid-1990s, the number of State business tax credits has grown exponentially, as have related concerns about the actual benefits and costs of many of these credits. Although tax credits comprise a small percentage of total income tax revenues, the number and amount of credits claimed have significantly increased over time.

In response to concerns about the fiscal impact of tax credits on State finances, Chapters 568 and 569 of 2012, the Tax Credit Evaluation Act, established a legislative process for evaluating certain tax credits. The evaluation process is conducted by a legislative evaluation committee that is appointed by the President of the Senate and the Speaker of the House of Delegates. The Act required that the Maryland Film Production Activity tax credit be evaluated by the committee by July 1, 2015. To assist the committee in its work, DLS evaluated the credits on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

Film Production Incentive Tax Credit

Film production incentives have gained popularity in the past decade, with 37 states and the District of Columbia offering them in 2014. Maryland began offering financial assistance to encourage film production activities in 2001 and adopted the current film production tax credit beginning in 2012. The costs of film incentives to states has risen dramatically as a result of both the increase in the number of states offering incentives and increases in the generosity of programs as states compete to attract

productions. As competition has increased and costs have escalated, questions have been raised about the impact of film incentives on economic development and state finances.

Chapter 516 of 2011 converted the existing Film Production Rebate Program (grant program) to the Film Production Tax Credit. The tax credit program retained much of the rebate program's structure and included an enhanced credit of 27% for a television series. A qualified film production entity that meets specified requirements and is approved by DBED may receive a tax credit equal to 25% of qualified film production costs incurred in the State. If the amount of the tax credit exceeds the total tax liability in the tax year, the entity can claim a refund in the amount of the excess. In order to qualify for the tax credit, the estimated total direct costs incurred in the State must exceed \$500,000.

The tax credit was capped at \$7.5 million per year in fiscal 2012 and 2013. Chapter 28 of 2013 increased that cap to \$25.0 million in fiscal 2014 to accommodate the productions of several film projects. In fiscal 2015, the program was again capped at \$7.5 million; however, the BRFA of 2014 included a provision to allow funding from the department's other programs (Sunny Day and the Preservation of Cultural Arts) to supplement the incentive.

Findings and Recommendations

Based on information uncovered in the report, DLS made several recommendations. Notably, DLS recommended that the program be allowed to sunset as scheduled on July 1, 2016. The report found that the credit does not provide sustainable economic development. The economic development activity generated by film productions is of a short duration. As soon as a film production ends, all positive economic impacts cease too. As such, the film production activity tax credit does not provide long-term employment. Maryland has provided \$62.5 million in tax credits between fiscal 2012 and 2016 while only receiving a fraction of the tax credit amounts back in revenues (\$6.3 million) to the State and local governments.

To the extent that there is an interest in continuing a film incentive beyond the sunset date, DLS recommended that the incentive be a grant program, rather than a tax credit program. While providing funding through a grant program could cause some uncertainty about funding levels from year to year, there is no compelling reason why film production incentives should be accessed through the tax system. Replacing the tax credit with a grant program could also aid in credit transparency and reduce administrative burdens.

Finally, any program that continues should have local participation, better performance measures, and limitations on any one film production's share of the incentive.

DLS recommends that the department briefly respond to the recommendations and any steps taken to improve the incentive.

3. New Initiatives: E-Nnovation Initiative Program and Regional Institution Strategic Enterprise Zones

Legislation was enacted in the 2014 session that established two new programs under the department's purview: the E-Nnovation Initiative Program and the Regional Institution Strategic Enterprise (RISE) Zone Program.

RISE Program

Chapter 531 of 2014 established the RISE Zone Program. The stated purpose of the RISE Zone Program is to access institutional assets that have a strong and demonstrated history of commitment to economic development and revitalization in the communities in which they are located. A qualified institution may apply with a county, municipal corporation, or the economic development agency of a county or municipal corporation to DBED for designation of an area as a RISE zone. A business entity that locates in a RISE zone is entitled to a property tax credit, an income tax credit, and priority consideration for assistance from the State's economic development and financial assistance programs.

A qualified institution includes (1) an institution of higher education (public and private four-year institutions and community colleges); (2) a nonprofit organization that is affiliated with a federal agency; or (3) a regional higher education center. A business may qualify for (1) a property tax credit; (2) an income tax credit; and (3) priority consideration for assistance from DBED financial assistance programs.

The department is in the early stages of developing the specific parameters of the program. Specifically, the department has held three stakeholder meetings that included representatives from universities, nonprofits, county and municipal government, other State agencies, and other interested parties. Draft regulations were published in January 2015.

Additionally, the department has developed an application for institutions to apply to be designated qualified institutions. It also created a web page with information about the program, including the application. DBED began accepting applications for designation as a qualified institution in December 2014. No applications have yet been received. However, the department advises that it has been notified informally that several institutions are in the process of applying. Also, the application process for designation as a RISE zone is in the final stages of development. Finally, the assignment of a concierge, included in the original legislation, will take place once the zones are designated, sometime during the second half of calendar 2015.

No programmatic funding is provided in the department's allowance as the program benefits are off-budget tax credits. Administratively, the department is handling the increased work associated with the program within existing budgeted resources.

E-Nnovation Initiative Program

Chapter 533 of 2014 established the Maryland E-Nnovation Initiative Program under the department to provide funds to nonprofit institutions of higher education to create research endowments. Funds may be used to (1) finance research endowments at nonprofit institutions of higher education in scientific and technical fields of study; and (2) pay the related administrative, legal, and actuarial expenses of the department.

Subject to specified conditions, each nonprofit institution of higher education in the State may create and administer one or more research endowments to receive distributions from the program. Endowment proceeds must be expended to further basic and applied research in scientific and technical fields of study that offer promising and significant economic impacts and the opportunity to develop clusters of technological innovation in the State, including but not limited to engineering, health sciences, and cybersecurity. Proceeds may only be spent (1) for the base salaries of newly endowed department chairs and associated staff and support personnel; (2) to fund related graduate and undergraduate student research fellowships; or (3) to purchase basic infrastructure including laboratory equipment and other related materials.

The department began its initial work on the new program in summer 2014 by convening regular meetings of the newly appointed authority. The authority solicited input from the stakeholders of the program at nine meetings between August 2014 and February 2015. Additionally, the department has drafted initial regulations to govern the program. Below is the department's tentative timetable for the remainder of fiscal 2015 and 2016.

- February 2015 – Submission of proposed regulations.
- March 2015 – Publish regulations and application procedures.
- July 2015 – First deadline for endowment plans.
- October 2015 – Approve endowment plans of participating institutions.
- November 2015 – First deadline for funding applications.
- June 2016 – Complete disbursement of endowment awards.

Funding is provided to the program through a portion of the admissions and amusement tax on electronic bingo and electronic tip jars and through general funds. Fiscal 2016 marks the first year of funding for the program. The allowance includes a total of \$8.5 million for the program – \$8.0 million in special funds and \$500,000 in general funds.

DLS recommends that the department brief the budget committees on its activities under the two new programs. Additionally, based on the delay that often results from the first year of

any program, DLS recommends delaying the funding for the awards under the E-Innovation Initiative Program until fiscal 2017. This would entail a reduction to the special and general funds within the fiscal 2016 allowance and a provision to the BRFA of 2015 to transfer the special funds to the general fund.

4. Delayed Progress on State Small Business Credit Initiative

In 2011, the department was awarded a total of \$23 million from the U.S. Department of the Treasury in support of the State Small Business Credit Initiative Act of 2010. This federal program was designed to utilize existing state economic development programs to increase the capital available to small business. The federal funds were originally made available in three tranches. In fiscal 2012, the first tranche, approximately \$4.7 million of this award, was included in the department's budget. However, a significant portion of the funds was canceled due to the department's inability to disburse the funds. Similarly, in fiscal 2013, a budget amendment appropriated \$19.6 million, the remainder of the tranches, in funds under the program. The department initially anticipated a speedy disbursement of the funds. The funds were budgeted as follows:

- **\$2.5 Million – MIDFA:** Half of these funds were for loan guarantees and half were transferred to the Department of Housing and Community Development (DHCD) for use in its Neighborhood Business Works Debt program;
- **\$12.7 Million – Maryland Enterprise Fund (Venture Fund):** Funds were for early-stage small business investments; and
- **\$4.4 Million – MSBDFA:** These funds were for the authority's Long-Term Guaranty Program. Typically, the program funds small businesses that have difficulty obtaining traditional financing.

The department continued to have difficulty in deploying the funds. Approximately \$18.0 million was subsequently canceled. A similar pattern occurred again in fiscal 2014. As of fiscal 2014, of the total award of \$23.0 million, only \$6.3 million has been spent as shown in **Exhibit 11**.

Included in the above figures are funds deployed as business assistance and funds used for administrative expenses. It should be noted that administrative expenses under the MSBDFA program are disproportionately high. The expenses account for 197.0% of what was deployed through the program in fiscal 2012 through 2014. This is compared to 7.0% and 0.8% for MIDFA and the Venture Fund, respectively.

Exhibit 11
Disbursement of State Small Business Credit Initiative
Fiscal 2012-2014
(\$ in Thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total 2012-14</u>
Venture Fund	\$2,072	\$934	\$1,600	\$4,606
Maryland Industrial Financing Authority	633	557	112	1,302
Maryland Small Business Development Financing Authority	182	166	16	364
Total	\$2,887	\$1,657	\$1,728	\$6,272

Source: Department of Business and Economic Development

The department advises that the U.S. Treasury has expressed dissatisfaction with the slow deployment of the funds. In fact, the department is at risk of forgoing the third tranche of the funds if it does not commit the remainder of the first tranche as soon as possible and the full second tranche by June 2015. The department is confident that it has addressed the issues that led to the slow deployment of funds. It is addressed, in part, by realigning the funds into the relatively active Venture Fund and out of the department's underutilized funds (MSBDFFA and MIDFA) in fiscal 2015.

The federal funds will also serve a second purpose for the department. It will serve as the seed funding for the attraction of private investment. The department plans to attract \$60 million in private funding but requires the certainty of the federal funding in order to do so.

DLS recommends that the department comment on the State Small Business Credit Initiative and the significant delay in disbursing the funds. DLS further recommends that funds be withheld under the department's Financing Program Operations until a report is submitted on progress to disburse the federal funds.

Recommended Actions

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

, provided that \$100,000 of this appropriation made for the purpose of financing program administration may not be expended until the Department of Business and Economic Development submits a report on its activities under the State Small Business Credit Initiative. The report shall include a discussion on the delayed implementation of the program and a detailed explanation of the steps taken to address the delay. The report shall also include a detailed accounting of the administrative costs of the initiative by departmental program.

Further provided that the budget committees shall have 45 days to review and comment from the date of receipt of the report. Funds restricted pending receipt of the report may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled.

Explanation: This language will restrict funds under the department’s Office of Finance Programs until it submits a report on the delayed implementation of the State Small Business Credit Initiative (SSBCI).

Information Request	Author	Due Date
Report on SSBCI	Department of Business and Economic Development	45 days prior to the release of funds

2. Strike the following language to the general fund appropriation:

~~, provided that this appropriation shall be reduced by \$500,000 contingent upon the enactment of legislation reducing the required appropriation for the Tax Credit Program.~~

Explanation: The fiscal 2016 budget bill as introduced includes a \$500,000 reduction to the CyberMaryland Investment Incentive Tax Credit Program that is contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act of 2015. This action strikes the contingent reduction so that the reduction may be taken directly.

	<u>Amount Reduction</u>	
3. Reduce funds under the CyberMaryland Investment Incentive Tax Credit Program reflecting the actual demand under the program.	\$ 500,000	GF
4. Delete the fiscal 2016 funding under the E-Innovation Initiative. Fiscal 2016 is the first year of the program. Based on its projected timeline, the department does	500,000 8,000,000	GF SF

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not expect to be able to deploy the funding until the end of the fiscal year. It would not substantially delay the implementation of the program to delay the funding by one fiscal year.

- 5. Reduce general funds under the Maryland Tourism Development Board. This action would reduce general funds to the mandated funding level of \$6 million. 2,157,767 GF

- 6. Strike the following language to the general fund appropriation:

~~provided that this appropriation shall be reduced \$1,361,571 contingent upon the enactment of legislation reducing the required appropriation for the Maryland State Arts Council.~~

Explanation: The fiscal 2016 budget bill as introduced includes a \$1,361,571 reduction to the Maryland State Arts Council contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act of 2015 that allows the Governor to fund the mandate at the fiscal 2014 level. This action strikes the contingent reduction so that the reduction may be taken directly.

	<u>Amount</u>	
	<u>Reduction</u>	
7. Reduce the funds for the Maryland State Arts Council to the fiscal 2014 level.	1,361,571	GF
Total Reductions	\$ 12,519,338	
Total General Fund Reductions	\$ 4,519,338	
Total Special Fund Reductions	\$ 8,000,000	

Updates

1. Report on Customer Service

The 2014 *Joint Chairmen's Report* included narrative that requested a report on how agencies address customer service training. Stemming from the Speaker's Business Climate Workgroup, this narrative aims to address concerns about inconsistent and unresponsive interactions between the business community and State agencies.

The narrative requests that the agencies with frequent interaction with the public develop plans for the improvement of customer service. The narrative specifically requests information from the State Highway Administration (SHA); the Maryland Department of the Environment; the Department of Labor, Licensing, and Regulation; and DBED. The report was submitted in January 2015. A summary of the agencies' customer service activities is below.

- **Business and Economic Development:** DBED has implemented customer service standards that define principles and expectations when dealing with customers. All staff is expected to adhere to the new standards. The department has also development a customer service survey that is accessible to all email recipients. DBED advises that survey results are reviewed by senior management. The department has also streamlined and consolidated the application process for its tax credit incentives. This is in response, in part, to complaints about the lack of an online application process for the department's Cybersecurity Investment Incentive tax credit. Finally, the department continues to improve its Central Business Licensing System.
- **Department of Labor, Licensing, and Regulation:** The department's customer service efforts are minimal. It reports that it has formalized a feedback process for participants in the Employment Advancement Right Now program. The department also reports that it intends, at some point, to collect customer satisfaction information from stakeholders in the State's unemployment insurance program.
- **Maryland Department of the Environment:** The department is attempting to address customer service by making improvements to its communications. Its outreach program plans to 20 to 30 community events to engage the public on issues related to the environment. Further, the department is redesigning its website to improve public access to information. This will include an online portal to allow the public to apply for nine of the agency's permits and registrations.
- **State Highway Administration:** SHA considers customer service to be one of its key performance areas (out of six). Each performance area has a team to track improvement. SHA also has a Customer Care Management System, which monitors and tracks citizens' requests for service. SHA is in the process of improving the system to include a social media component. Additionally, SHA posts on its website a Customer Bill of Rights. Finally, SHA has formed a

Highway Access Permit Stakeholder Review Group as a means to bring together stakeholders at the State and local level to coordinate and improve the permitting process.

2. Major Grants

The department awarded \$27.8 million in grants in fiscal 2014, as shown in **Exhibit 12**. The exhibit also shows that another \$34.7 million is expected to be disbursed as grants in fiscal 2015. A decrease in grants is budgeted for fiscal 2016.

Exhibit 12
Summary of Major Grants
Fiscal 2014-2016

	<u>2014</u>	<u>Appropriation 2015</u>	<u>Allowance 2016</u>
Office of the Secretary			
Maryland Biotechnology Center			
Biotech Translational Research and Commercialization Grants	\$1,535,288	\$1,726,450	\$1,735,288
Biotech Institute of Maryland	250,000	0	0
Other Biotech Grant Support	55,142	45,510	57,817
Subtotal	\$1,840,430	\$1,771,960	\$1,793,105
Division of Business and Enterprise Development			
Office of International Trade and Development			
Maryland Israel Development Corp.	\$275,000	\$275,000	\$275,000
World Trade Center Institute	275,000	275,000	275,000
Export Maryland D – Small Business Foreign Trade Grants	181,179	292,712	292,712
Military/Federal and BRAC Assistance			
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	21,583	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	26,333	26,333	26,333
BRAC Support	32,807	41,334	41,334

T00 – Department of Business and Economic Development

	<u>2014</u>	<u>Appropriation 2015</u>	<u>Allowance 2016</u>
Workforce Development and Coordination			
Partnership for Workforce Quality	124,989	100,000	0
Governor’s Workforce Investment Board	26,635	25,624	26,635
Small Business			
Small Business Development Center/University of Maryland – PTAP	140,000	150,000	140,000
University of Maryland – SBDC	85,400	85,400	85,400
Nat’l Veterans Institute for Procurement	0	150,000	0
Not-for-profit Development Fund Grants	110,000	110,000	110,000
Community Development			
Appalachian Regional Commission	15,748	15,270	15,748
Tri-county Council of Western Maryland	150,000	150,000	150,000
Tri-county Council of Southern Maryland	150,000	150,000	150,000
Mid-shore Regional Council	150,000	150,000	150,000
Tri-county Council Lower Shore	150,000	150,000	150,000
Upper Shore Regional Council	150,000	150,000	150,000
Hagerstown Downtown Planning	100,000	0	0
Economic Alliance of Greater Baltimore	62,000	62,333	62,000
Technology Development			
Technology Council of Maryland	25,000	40,000	40,000
Greater Baltimore Technology Council	50,000	45,000	55,000
Chesapeake Regional Technology Council	47,250	45,000	55,000
Manufacturing Extension Partnership	250,000	250,000	250,000
Chesapeake Crescent	25,000	0	0
Other/TBD	22,000	0	15,000
Cybersecurity Industry Support/TBD	0	300,000	302,500
Mid-Atlantic Aviation Partnership	0	250,000	0
Federal Business Council	80,000	0	0
Advance Maryland	30,000	0	0
DHCD (Smart Growth Fund)	62,500	0	0
Dream-It	50,000	0	0
Innovation Portal Collaboration with TEDCO	150,000	0	0
Salisbury State University/GeoDash	72,962	0	0
Subtotal	\$3,236,136	\$3,455,339	\$2,983,995
Division of Tourism, Film, and the Arts			
Tourism			
Baltimore Symphony Orchestra	\$596,610	\$0	\$0
Capital Region USA, Inc.	239,500	239,500	239,500
Star Spangled 200, Inc.	74,308	2,000,000	0
Maryland Tourism Education Foundation	30,000	30,000	0

T00 – Department of Business and Economic Development

	<u>2014</u>	<u>Appropriation 2015</u>	<u>Allowance 2016</u>
Maryland Sportsmen’s Foundation	300,000	0	0
Maryland Tourism Council	40,000	35,000	35,000
War of 1812 Grants			
Maryland Historical Society	165,000	0	0
Society for the Preservation of Federal Hill and Fells Point	107,279	0	0
Baltimore County	100,000	0	0
Friends of Patterson Park	100,000	0	0
The Creative Alliance	115,000	0	0
Living Classrooms Foundation and Friends of Fort McHenry	115,000	0	0
Reginald F. Lewis Museum of Maryland African American History	128,000	0	0
Maryland Public Television	140,852	0	0
Star-Spangled Banner Flag House, Inc.	150,000	0	0
Star Spangled 200, Inc.	1,717,275	0	0
Maryland Academy of Sciences	675,000	0	0
Pride of Baltimore	0	125,000	0
War of 1812 Grants (Various Recipients)	977,004	337,000	0
Subtotal War of 1812 Grants	4,490,410	462,000	0
County Cooperative Grants (Various Recipients)	2,500,000	2,500,000	2,500,000
Various other Tourism grants	93,484	264,288	154,423
Subtotal –Tourism	\$8,364,312	\$5,530,788	\$2,928,923
Maryland State Arts Council Grants*			
Grants to Arts Organizations:			
Academy Art Museum	\$94,409	\$102,427	0
Adventure Theatre – Musical Theater Center	65,000	100,000	0
AEMS: Arts Education in Maryland Schools Alliance	29,246	17,109	0
AFI Silver Theatre and Cultural Center	90,000	110,000	0
American Dance Institute, Inc.	30,000	60,000	0
American Visionary Art Museum, Inc.	164,000	175,650	0
Annapolis Symphony Orchestra	88,251	81,979	0
Avalon Foundation Inc.	107,844	111,646	0
Ballet Theatre of Maryland, Inc.	53,639	54,670	0
Baltimore Choral Arts Society	43,310	41,900	0
Baltimore Clayworks	80,987	71,452	0
Baltimore Symphony Orchestra	1,796,746	1,824,061	0
Baltimore’s Festival of the Arts, Inc.	61,880	62,912	0
BlackRock Center for the Arts	50,390	54,021	0
Center Stage Associates, Inc.	489,657	483,895	0

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	<u>2014</u>	<u>Appropriation 2015</u>	<u>Allowance 2016</u>
City of Gaithersburg	32,000	33,411	0
Class Acts Arts, Inc.	81,825	66,471	0
Columbia Festival of the Arts	36,000	32,787	0
Common Ground on the Hill	38,592	33,174	0
Concert Artists of Baltimore	36,139	28,283	0
Creative Alliance	129,408	80,000	0
Everyman Theatre Inc.	139,543	161,829	0
Frostburg State University – Cultural Events Series	28,000	26,199	0
Glen Echo Park Partnership for Arts and Culture, Inc.	70,000	90,000	0
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	318,314	323,677	0
Jewish Community Center of Greater Washington	30,000	33,560	0
Jewish Museum of Maryland	68,000	54,208	0
Liz Lerman Dance Exchange	60,606	45,069	0
Maryland-National Capital Park and Planning	250,000	276,202	0
Maryland Art Place, Inc.	25,743	30,494	0
Maryland Classic Youth Orchestras, Inc.	35,888	38,294	0
Maryland Hall for the Creative Arts	107,304	106,143	0
Maryland Symphony Orchestra	83,098	89,760	0
Maryland-National Capital Park and Planning Commission, Area Operations	36,000	276,202	0
Metropolitan Center for Visual Arts (VisArts)	30,000	40,000	0
Modell Performing Arts Center at the Lyric	150,000	200,000	0
National Chamber Orchestra Society, Inc./ National Philharmonic	145,308	176,355	0
National Council for the Traditional Arts	56,609	58,030	0
Olney Theater Center for the Arts	97,864	91,478	0
Producer’s Club of Maryland – Maryland Film Festival	30,000	30,000	0
Pyramid Atlantic Art Center	28,000	36,463	0
Round House Theater, Inc.	222,085	198,963	0
Shriver Hall Concert Series	32,461	32,930	0
St. Mary’s College of Maryland Foundation – River Concert Series	27,488	16,203	0
Strathmore Hall Arts Center	579,432	553,962	0
The Baltimore Museum of Art	866,397	875,203	0
The Delaplaine Visual Arts Education Center	45,000	45,000	0
The Puppet Company	40,827	38,752	0
The Walters Art Gallery	894,208	975,922	0
The Ward Museum of Wildfowl Art	71,908	66,073	0
The Writer’s Center	52,277	58,917	0

T00 – Department of Business and Economic Development

	<u>2014</u>	<u>Appropriation 2015</u>	<u>Allowance 2016</u>
Univ. of Maryland Smith Performance Arts Center at Maryland	353,441	26,199	0
University of Maryland Baltimore County – Center for Arts, Design	50,000	26,199	0
University of Maryland College Park – David C. Driskell Center	35,000	26,199	0
Washington County Museum of Fine Arts	73,029	72,802	0
Waterfowl Festival, Inc.	55,000	56,381	0
WBJC-FM	55,000	60,000	0
Weinberg Center for the Arts/City of Frederick	80,000	1,059,191	0
World Arts Focus	60,000	71,092	0
Young Audiences of Maryland Inc.	110,000	37,500	0
Various MSAC GFO Grants	1,635,663	1,343,456	0
Subtotal	\$10,728,816	\$11,450,754	\$11,693,936
Community Arts Development			
Allegany Arts Council	\$93,205	\$97,187	0
Arts and Humanities Council of Montgomery County	131,239	137,095	0
Arts Council of Anne Arundel County	112,676	117,591	0
Arts Council of Calvert County	93,843	97,904	0
Baltimore County Commission on Arts and Sciences	123,586	128,900	0
Baltimore Office of Promotion and the Arts	115,572	120,399	0
Caroline County Council of Arts, Inc.	91,517	95,459	0
Carroll County Arts Council	97,014	101,166	0
Cecil County Arts Council Inc.	94,336	98,388	0
Charles County Arts Alliance Inc.	96,334	100,544	0
Dorchester Center for the Arts, Inc.	91,510	95,458	0
Frederick Arts Council Inc.	99,971	104,291	0
Garrett County Arts Council	91,400	95,340	0
Harford County Cultural Arts Board	100,340	104,621	0
Howard County Arts Council	102,417	106,964	0
Kent County Arts Council	91,005	94,920	0
Prince George’s Arts and Humanities Council	126,189	131,738	0
Queen Anne’s County Arts Council	92,166	96,129	0
Salisbury Wicomico Arts Council	94,293	98,345	0
Somerset County Arts Council	91,253	95,187	0
St. Mary’s County Arts Council	94,634	98,715	0
Talbot County Arts Council, Inc.	91,737	95,681	0
Washington County Arts Council, Inc.	96,277	100,405	0
Worcester County Arts Council, Inc.	92,288	96,260	0
Subtotal	\$2,404,802	\$2,508,687	\$2,599,730

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	<u>2014</u>	<u>Appropriation 2015</u>	<u>Allowance 2016</u>
Artists in Education			
Class Acts Arts, Inc.	\$25,500	\$66,471	0
InterAct Story Theatre Education Association	163,808	140,042	0
Young Audiences of Maryland, Inc.	39,500	37,500	0
Subtotal	\$228,808	\$244,013	\$725,000
Maryland Traditions			
Subtotal	\$206,889	\$240,000	\$240,000
Grants to all other organizations, regardless of which MSAC subprogram	\$761,998	\$717,180	\$270,000
Total – Arts Council	\$14,331,313	\$15,160,634	\$15,528,666
Film Production Program			
Knight Takes King Productions, LLC	0	\$7,500,000	\$0
Preservation of Cultural Arts			
Arena Players Inc.	0	100,000	0
Prince George’s African American Museum and Culture	0	200,000	0
Great Blacks in Wax Museum	0	150,000	0
The Maryland School for the Blind	0	800,000	0
Various to be determined	0	0	2,000,000
Total – Preservation of Cultural Arts	\$0	\$1,250,000	\$2,000,000
Total DBED Grants	\$27,772,191	\$34,668,721	\$25,234,689

BRAC: Base Realignment and Closure
AEMS: Arts Education in Maryland Schools
AFI: American Film Institute
BSO: Baltimore Symphony Orchestra
DBED: Department of Business and Economic Development
DHCD: Department of Housing and Community Development
GFO: grants for organizations
MSAC: Maryland State Arts Council Grants
PTAP: Procurement Technical Assistance Program
SBCD: Small Business Development Center
TBD: to be decided
TEDCO: Maryland Technology Development Corporation

* The final distribution of Maryland State Arts Council grants to arts organizations for fiscal 2016 is not known at this time. Grant amounts for fiscal 2015 have not been adjusted to reflect the negative deficiency of \$790,042. The fiscal 2016 grant category amounts are reflective of the allowance as presented and do not reflect possible further reductions as a result of a Budget Reconciliation and Financing Act item.

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 2014					
Legislative Appropriation	\$67,073	\$66,083	\$1,781	\$1,017	\$135,954
Deficiency Appropriation	-1,112	5,486	-13	0	4,361
Budget Amendments	274	803	21,155	0	22,233
Reversions and Cancellations	-1,333	-1,883	-17,669	-831	-21,716
Actual Expenditures	\$64,902	\$70,489	\$5,255	\$186	\$140,832
Fiscal 2015					
Legislative Appropriation	\$79,337	\$80,738	\$800	\$0	\$160,875
Cost Containment	-82	0	0	0	-82
Budget Amendments	-849	7,207	9,304	442	16,103
Working Appropriation	\$78,407	\$87,945	\$10,105	\$442	\$176,897

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

In fiscal 2014, actual expenditures for the department were higher than that was originally appropriated. Amendments to adjust for a cost-of-living (COLA) and other salary increments increased the fiscal 2014 budget by \$274,173 in general funds, \$103,351 in special funds, and \$11,184 in federal funds.

Additionally, the fiscal 2015 allowance included \$110,000 in fiscal 2014 special funds to support the Maryland Not-for-Profit Development Center Fund, which is designed to provide training and technical assistance grants to nonprofit organizations. The program is funded by a \$50 processing fee on articles of incorporation filed by nonstock corporations. The net effect of two additional deficiencies related to the MEDAAF resulted in the addition of \$4.5 million to that program in fiscal 2014. The fiscal 2014 budget bill included language restricting \$500,000 in general funds in the MEDAAF to be used only (if transferred by budget amendment) by TEDCO for its Rural Business Initiative program. The funds were required to revert if not used for the restricted purpose. The Administration chose not to transfer the funds for the restricted purpose and instead withdrew the \$500,000 in general funds as cost containment. Mitigating the general funds savings is an additional deficiency appropriation that would add \$5.0 million in special funds for the MEDAAF for “business assistance to encourage relocation of businesses to Maryland and expansion of existing businesses in the State.” Cost containment deficiencies related to health insurance and retirement costs removed an additional \$612,000 in general funds from the original appropriation.

The fiscal 2015 allowance also included a fiscal 2014 deficiency of \$500,000 in special funds for the Preservation of Cultural Arts program which is funded by a portion of the admissions and amusement tax on electronic bingo machines in certain counties. However, the department was unable to spend these funds and the funds were reverted at the end of the year. A fiscal 2014 budget amendment added \$700,000 in special funds to the MEAF program. 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.

An additional amendment added \$2,992,275 in federal funds to the Maryland Tourism Development Board in fiscal 2014. This funding is passed through to the nonprofit arm of the Maryland War of 1812 Bicentennial Commission created by an executive order of the Governor. The funding is derived from a surcharge on the sale of the Star Spangled Banner Commemorative Coin as authorized by federal law.

Moreover, another amendment added \$18,151,729 in federal funds to various units within the department. The funds are awarded from the U.S. Department of the Treasury in support of the State Small Business Credit Initiative Act of 2010. This federal program was designed to utilize existing state economic development programs to increase the capital available to small business. The funds were budgeted as follows:

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- **\$2.4 Million – MIDFA:** A portion of these funds will be used for loan guarantees, and a portion will be transferred to DHCD for use in its Neighborhood Business Works Debt program;
- **\$11.5 Million – Maryland Enterprise Fund:** Funds will be used for early-stage small business investments; and
- **\$4.3 Million – MSBDFEA:** These funds will be used in the authority’s Long-Term Guaranty Program. Typically, the program funds small businesses that have difficulty obtaining traditional financing.

A significant portion of these funds were appropriated and subsequently canceled in fiscal 2012 and again in fiscal 2013 and again in fiscal 2014. The department had significant difficulty in deploying the funds during the three fiscal years as discussed above. Finally, much of the department’s reimbursable funds were canceled at the end of fiscal 2014. The department was unable to spend funds it received from the Maryland Department of Transportation for tourism-related grants related to the State’s scenic byways.

Fiscal 2015

The fiscal 2015 working appropriation is significantly higher than the original appropriation due primarily to increases in special and federal funds. Conversely, total general funds decline in the working appropriation.

The fiscal 2015 COLA increased general funds by \$151,378. However, the July cost containment actions taken by BPW decreased general funds by \$81,500. Additionally, at the direction of budget bill language, \$1 million in general funds was transferred by budget amendment from DBED’s MEDAAF program to the Maryland Technology Development Corporation to provide the initial funding for the Cybersecurity Investment program.

Special funds increase by over \$7.2 million in fiscal 2015. The fiscal 2015 COLA increased special funds by \$56,529. Additionally, a budget amendment increased special funds under the MEAF by \$400,000. Funds are being used to provide working capital loans at favorable terms to small and early-stage cybersecurity companies that are located in areas affected by defense adjustments. The primary driver of the increase in special funds is a budget amendment that appropriates fund balance under the Sunny Day program and the Preservation of Cultural Arts program to benefit the department’s film incentive program. The BRFA of 2014 authorized the use of these fund sources to provide grants to supplement tax credits awarded under the film production activity tax credit program.

Federal funds increase significantly in fiscal 2015. This is primarily due to the reappropriation of funds under the U.S. Small Business Credit Initiative (\$7.7 million). This is a repeated occurrence due the department’s difficulties in deploying the funds. The department advises that the U.S. Treasury has expressed dissatisfaction with the slow deployment of the funds. In fact, the department is at risk of forgoing additional funds if it does not commit the remainder of the current funds by June 2015. The

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department is confident that it has addressed the issues that led to the slow deployment of funds. It is addressed, in part, by realigning the funds into the relatively active Venture Fund, and out of the department's underutilized funds (MSBDFEA and MIDFA). Federal funds also increase in fiscal 2015 for the Office of Military and Federal Affairs to develop strategies to diversify the State's economy in light of federal defense budget reductions.

Federal funds also increase by \$501,865 due to a budget amendment that provided funds to the Maryland Tourism Board. This funding is passed through to the nonprofit arm of the Maryland War of 1812 Bicentennial Commission created by an executive order of the Governor. The funding is derived from a surcharge on the sale of the Star Spangled Banner Commemorative Coin as authorized by federal law. According to the federal regulations, the funding must be matched by private fundraising. Funds were used by the commission to support activities related to the bicentennial celebration of the War of 1812 and in particular, the Battle of Baltimore.

Finally, reimbursable funds increase by \$441,706 in fiscal 2015. Funds were provided by the Maryland Department of Transportation through the Scenic Byways programs. Funds were used to enhance marketing efforts related to the War of 1812 celebration.

Object/Fund Difference Report
Department of Business and Economic Development

<u>Object/Fund</u>	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u> <u>Appropriation</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15 - FY 16</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	222.00	221.00	221.00	0.00	0%
02 Contractual	18.25	18.25	17.95	-0.30	-1.6%
Total Positions	240.25	239.25	238.95	-0.30	-0.1%
Objects					
01 Salaries and Wages	\$ 21,928,585	\$ 23,302,656	\$ 24,947,818	\$ 1,645,162	7.1%
02 Technical and Spec. Fees	890,501	938,200	862,715	-75,485	-8.0%
03 Communication	568,021	662,869	624,577	-38,292	-5.8%
04 Travel	589,826	719,249	761,156	41,907	5.8%
06 Fuel and Utilities	23,605	26,061	24,140	-1,921	-7.4%
07 Motor Vehicles	247,172	276,310	283,056	6,746	2.4%
08 Contractual Services	10,855,739	13,541,189	12,886,499	-654,690	-4.8%
09 Supplies and Materials	170,481	230,087	187,143	-42,944	-18.7%
10 Equipment – Replacement	133,123	15,300	35,174	19,874	129.9%
11 Equipment – Additional	52,796	7,993	0	-7,993	-100.0%
12 Grants, Subsidies, and Contributions	50,979,070	64,687,683	51,964,971	-12,722,712	-19.7%
13 Fixed Charges	2,515,273	2,605,430	2,548,744	-56,686	-2.2%
14 Land and Structures	51,877,989	69,885,061	48,610,000	-21,275,061	-30.4%
Total Objects	\$ 140,832,181	\$ 176,898,088	\$ 143,735,993	-\$ 33,162,095	-18.7%
Funds					
01 General Fund	\$ 64,901,932	\$ 78,407,204	\$ 75,766,574	-\$ 2,640,630	-3.4%
03 Special Fund	70,489,484	87,944,610	66,162,476	-21,782,134	-24.8%
05 Federal Fund	5,254,997	10,104,568	1,540,716	-8,563,852	-84.8%
09 Reimbursable Fund	185,768	441,706	266,227	-175,479	-39.7%
Total Funds	\$ 140,832,181	\$ 176,898,088	\$ 143,735,993	-\$ 33,162,095	-18.7%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
Department of Business and Economic Development

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
0A Department of Business And Economic Development	\$ 13,388,087	\$ 14,171,262	\$ 14,513,815	\$ 342,553	2.4%
0E Division of Marketing	3,523,152	3,268,356	3,571,042	302,686	9.3%
0F Division of Financial Assistance Programs	90,396,776	117,536,368	92,764,311	-24,772,057	-21.1%
0G Division of Tourism and Promotion	33,524,166	41,922,102	32,886,825	-9,035,277	-21.6%
Total Expenditures	\$ 140,832,181	\$ 176,898,088	\$ 143,735,993	-\$ 33,162,095	-18.7%
General Fund	\$ 64,901,932	\$ 78,407,204	\$ 75,766,574	-\$ 2,640,630	-3.4%
Special Fund	70,489,484	87,944,610	66,162,476	-21,782,134	-24.8%
Federal Fund	5,254,997	10,104,568	1,540,716	-8,563,852	-84.8%
Total Appropriations	\$ 140,646,413	\$ 176,456,382	\$ 143,469,766	-\$ 32,986,616	-18.7%
Reimbursable Fund	\$ 185,768	\$ 441,706	\$ 266,227	-\$ 175,479	-39.7%
Total Funds	\$ 140,832,181	\$ 176,898,088	\$ 143,735,993	-\$ 33,162,095	-18.7%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.