

**T00**  
**Department of Commerce**

***Operating Budget Data***

(\$ in Thousands)

	<b><u>FY 17</u></b> <b><u>Actual</u></b>	<b><u>FY 18</u></b> <b><u>Working</u></b>	<b><u>FY 19</u></b> <b><u>Allowance</u></b>	<b><u>FY 18-19</u></b> <b><u>Change</u></b>	<b><u>% Change</u></b> <b><u>Prior Year</u></b>
General Fund	\$93,977	\$84,536	\$101,154	\$16,617	19.7%
Adjustments	0	-208	-867	-659	
<b>Adjusted General Fund</b>	<b>\$93,977</b>	<b>\$84,329</b>	<b>\$100,287</b>	<b>\$15,958</b>	<b>18.9%</b>
Special Fund	54,072	37,802	62,413	24,611	65.1%
Adjustments	0	2,538	43	-2,495	
<b>Adjusted Special Fund</b>	<b>\$54,072</b>	<b>\$40,340</b>	<b>\$62,456</b>	<b>\$22,116</b>	<b>54.8%</b>
Federal Fund	9,583	2,511	1,495	-1,017	-40.5%
Adjustments	0	-9	5	13	
<b>Adjusted Federal Fund</b>	<b>\$9,583</b>	<b>\$2,503</b>	<b>\$1,499</b>	<b>-\$1,003</b>	<b>-40.1%</b>
Reimbursable Fund	206	0	0	0	
<b>Adjusted Reimbursable Fund</b>	<b>\$206</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
<b>Adjusted Grand Total</b>	<b>\$157,837</b>	<b>\$127,172</b>	<b>\$164,243</b>	<b>\$37,071</b>	<b>29.2%</b>

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The fiscal 2019 budget includes fiscal 2018 special fund deficiency appropriations of \$2.5 million for the Maryland Economic Development Assistance Authority and Fund (MEDAAF) to increase the amount of funds available for loans and \$100,000 for the Military Personnel and Service-Disabled Veteran Loan Program.
- The fiscal 2019 allowance grows by \$37.1 million, or 29.2%, compared to the fiscal 2018 working appropriation. However, the allowance is only 4% higher than the fiscal 2017 actuals.
- General funds increase by \$16.0 million in the fiscal 2019 allowance compared to the fiscal 2018 working appropriation. Large changes include \$15 million for the Sunny Day Fund and \$10 million for tax credits for the More Jobs for Marylanders Act (Chapter 149 of 2017). Those increases are partially offset by a \$13.8 million reduction in general funds for MEDAAF.

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

For further information contact: Jason A. Kramer

Phone: (410) 946-5530

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- Special funds increase by \$22.1 million, with the majority of that attributable to an increase of \$16.3 million for MEDAAF and \$5 million in special fund payments from the Sunny Day Fund.

***Personnel Data***

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	<b><u>FY 17</u></b> <b><u>Actual</u></b>	<b><u>FY 18</u></b> <b><u>Working</u></b>	<b><u>FY 19</u></b> <b><u>Allowance</u></b>	<b><u>FY 18-19</u></b> <b><u>Change</u></b>
Regular Positions	193.00	193.00	192.00	-1.00
Contractual FTEs	<u>24.84</u>	<u>28.90</u>	<u>28.40</u>	<u>-0.50</u>
<b>Total Personnel</b>	<b>217.84</b>	<b>221.90</b>	<b>220.40</b>	<b>-1.50</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	10.48	5.46%
Positions and Percentage Vacant as of 12/31/17	10.00	5.18%

- Regular full-time equivalent (FTE) positions decrease by 1.0 in the fiscal 2019 allowance. The department abolished the position in the Office of Military and Federal Affairs after a loss of federal funding.
- The number of contractual FTEs declines by 0.5 compared to the fiscal 2018 working appropriation.
- The fiscal 2019 budgeted turnover rate is 5.46%, requiring 10.48 positions to be vacant. As of December 31, 2017, there were 10 vacant regular positions, for a vacancy rate of 5.18%.

## *Analysis in Brief*

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### **Major Trends**

***Department Reports Jobs Created and Retained:*** The department aims to develop and maintain a pipeline of projects that result in facility location decisions and other projects that create or retain jobs. There were 10,000 jobs retained at Marriott International and 3,500 jobs retained at Northrop Grumman in fiscal 2017. Without those two extraordinary efforts, the Department of Commerce (Commerce) reports that the number of retained jobs in fiscal 2017 is only 1,761, the lowest since at least fiscal 2013, the first year jobs retained was tracked separately; it is also a 54.3% decline in jobs retained compared to fiscal 2016.

### **Issues**

***Maryland Marketing Partnership Fundraising Efforts:*** Chapter 141 of 2015 established a public-private marketing entity called the Maryland Marketing Partnership (MMP) to create a branding strategy for the State, market the State's assets to out-of-state businesses, recruit out-of-state businesses to locate and grow in the State, and foster public-private partnerships (P3) that encourage the location and development of new businesses in the State. MMP launched its marketing campaign in summer 2017 with the theme of "Maryland is Open for Business." As a P3, MMP is partially funded by donations from businesses. Based on current commitments, Commerce expects to receive approximately \$1.3 million annually from private contributions in calendar 2017 through 2019. As part of its efforts to raise money from the private sector, the department is touting special access to the Secretary and Governor. The State Ethics Commission has advised that solicitations that are part of the agency's mission are acceptable. However, the commission has also issued guidelines for agencies that are carrying out fundraising activities. A portion of the guidelines states that "it should be made clear to those solicited that a donation will not confer any special access or benefit in their dealings with the State." **The Department of Legislative Services (DLS) recommends that the department brief the committees on their fundraising efforts and the appearance of providing special access to MMP donors.**

***Questions Raised about Effectiveness of Biotechnology Tax Credit:*** The Maryland Biotechnology Investment Incentive Tax Credit was established as an income tax credit for investors as an incentive to invest in qualified biotechnology firms. In fiscal 2017, for the \$12 million in appropriations for the credit, qualified companies created 42 jobs. That equates to more than \$285,000 per job. The Tax Credit Evaluation Act requires that the tax credit be evaluated by a committee the President of the Senate and the Speaker of the House of Delegates appoints by July 1, 2018. To assist the committee in its work, DLS evaluated the credit. In its draft report issued in November 2017, DLS made several findings and recommendations. The main finding is that there is no evidence that the credit has increased investment in the biotechnology industry. In the draft report, DLS advises that the General Assembly consider eliminating the program in its current form or allowing the tax credit to sunset in two years and replacing it with a more effective program.

***Small, Minority, and Women-Owned Businesses Account Temporarily Loses Funding Source:*** Statute requires that 1.5% of the proceeds from video lottery terminal (VLT) facilities across the State be deposited in the Small, Minority, and Women-Owned Businesses Account (SMWOBA). However, Chapter 23 of 2017 (the Budget Reconciliation and Financing Act) redirected those funds in fiscal 2018 through 2020 to instead be used for educational purposes. Therefore, there is no allowance in the budget for this program. The action to redirect the SMWOBA funding stream was made due to the existing funds available. According to Commerce, fund managers had a combined \$13.2 million available to draw from as of February 2018. **Commerce should comment on the impact to the program of the loss of the VLT funding stream.**

## **Operating Budget Recommended Actions**

	<b><u>Funds</u></b>
1. Add language making funds under the Cybersecurity Investment Incentive tax credit contingent on legislation.	
2. Reduce funds under the Maryland Tourism Development Board.	\$ 1,000,000
3. Delete language that would reduce funding for the Maryland State Arts Council contingent on legislation.	
4. Add language making funds under the Economic Development Opportunities Program Account contingent on legislation.	
<b>Total Reductions</b>	<b>\$ 1,000,000</b>

## **Updates**

***Major Grants:*** The department awarded \$27.9 million in grants in fiscal 2017; another \$27.6 million is being disbursed in the current fiscal year.

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## ***Operating Budget Analysis***

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### **Program Description**

The mission of the Department of Commerce (Commerce) is to strengthen the Maryland economy. Commerce 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 Industry Sector Development; and the Division of Tourism, Film, and the Arts. The department's mission and goals are supported by these three 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 offices of the Attorney General, Policy and Research, International Investment and Trade, Administration and Technology, Military and Federal Affairs, and the Division of Marketing and Communication. Also included under the purview of the Office of the Secretary is the Maryland Marketing Partnership (MMP).
- ***Division of Business and Industry Sector 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 BioHealth, Business Development, Strategic Industries and Entrepreneurship, and Cybersecurity and Aerospace. 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**

Commerce administers several primary business assistance programs. These programs provide resources upon which the Division of Business and Industry Sector 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. Chapter 172 of 2001 broadened the Maryland Small Business Development Financing Authority's (MSBDFA) scope to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria. A private contractor, currently Meridian Management Group, Inc., reviews the financing applications for presentation to the MSBDFA board. MSBDFA has four programs: the Contract Financing Program, the Long-Term Guaranty Program, the Surety Bond Program, and the Equity Participation Investment Program.
- ***Small, Minority, and Women-Owned Businesses Account:*** This program 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.
- ***Maryland Industrial Development Financing Authority:*** This program is designed to provide financing support to manufacturing, industrial, and technology businesses. The program provides the support by partnering with private-sector financing to issue bonds and provide credit enhancements that increase access to capital for small and midsize companies.
- ***Economic Development Opportunities Program Fund (Sunny Day Fund):*** This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations that create or retain a substantial number of jobs and where a considerable private investment is leveraged. The Sunny Day Fund is a fund under the State Reserve Fund.

## **Types of Financing Assistance**

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

- ***Investments:*** Commerce 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:*** Commerce 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. Commerce treats conditional grants the same as conditional loans but, in some cases, a company may not want to account for Commerce 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. Commerce does not use this form of assistance often.
- ***Tax Credits:*** The department administers several tax credit programs, including the Biotechnology Investment Incentive Tax Credit, the Base Realignment and Closure Revitalization and Incentive Zone Program, the Brownfields Tax Incentive, the Enterprise Zone Tax Credit, the Job Creation Tax Credit, the One Maryland Tax Credit, the Cybersecurity Investment Incentive Tax Credit, the Film Production Activity Tax Credit, the Research and Development Tax Credit, and the More Jobs for Marylanders Tax Credit. The More Jobs for Marylanders Tax Credit, the Biotechnology Investment Incentive Tax Credit, the Cybersecurity Investment Incentive Tax Credit, and the Film Production Activity Tax Credit are budgeted within the department's appropriation.

## **Performance Analysis: Managing for Results**

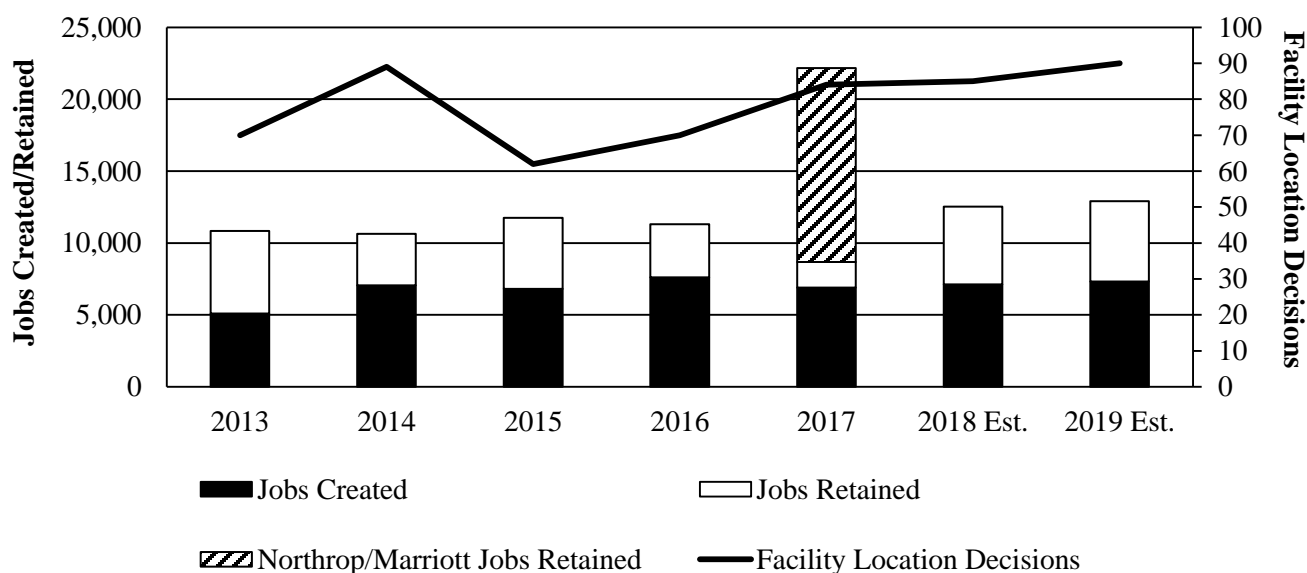
### **1. Department Reports Jobs Created and Retained**

The department aims to develop and maintain a pipeline of projects that result 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 financing, workforce training, marketing, permitting, or technical assistance.

**Exhibit 1** shows the number of facility location decisions and the number of jobs created or retained. The fiscal 2017 spike in jobs retained is due to the retention of an estimated 10,000 jobs at Northrop Grumman and an estimated 3,500 jobs at Marriott International. The State will grant Northrop Grumman a total of \$20 million from the Sunny Day Fund in fiscal 2017 to 2019, and \$20 million to Marriott beginning with a \$5 million payment in fiscal 2019. Without those two extraordinary efforts included, Commerce reports that the number of retained jobs in fiscal 2017 is only 1,761, the lowest since at least fiscal 2013, the first year jobs retained was tracked separately; it is also a 54.3% decline in jobs retained compared to fiscal 2016. One reason for the decline in jobs retained, according to Commerce, is that due to an improving economy, there are fewer jobs considered to be at risk of leaving the State, therefore there are fewer jobs that can be retained. However, Commerce is projecting a return to recent levels of job retention in fiscal 2018 and 2019. The number of new jobs created in the State also declined from 7,616 in fiscal 2016 to 6,907 in fiscal 2017.

**Exhibit 1**  
**Department of Commerce**  
**Select Performance Measures**  
**Fiscal 2013-2019 Est.**



Source: Department of Budget and Management



## **Fiscal 2018 Actions**

### **Proposed Deficiency and Cost Containment**

The fiscal 2019 allowance includes fiscal 2018 special fund deficiency appropriations of \$2.5 million for MEDAAF to increase the amount of funds available for loans, and \$100,000 for the Military Personnel and Service-Disabled Veteran Loan Program. The deficiency appropriation for the veteran loan program replaces a reduction in general funds of the same amount taken for cost containment purposes by the Board of Public Works in September 2017.

### **Across-the-board Employee and Retiree Health Insurance Reduction**

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency's share of this reduction is \$207,606 in general funds, \$61,604 in special funds, and \$8,622 in federal funds.

### **Proposed Budget**

Including deficiencies and contingent reductions, the fiscal 2019 allowance grows by \$37.1 million, or 29.2%, as shown in **Exhibit 2**. General funds grow by \$16.0 million, or 18.9%, while special funds grow by \$22.1 million, or 54.8%.

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**Exhibit 2**  
**Proposed Budget**  
**Department of Commerce**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
Fiscal 2017 Actual	\$93,977	\$54,072	\$9,583	\$206	\$157,837
Fiscal 2018 Working Appropriation	84,329	40,340	2,503	0	127,172
Fiscal 2019 Allowance	<u>100,287</u>	<u>62,456</u>	<u>1,499</u>	<u>0</u>	<u>164,243</u>
Fiscal 2018-2019 Amount Change	\$15,958	\$22,116	-\$1,003	\$0	\$37,071
Fiscal 2018-2019 Percent Change	18.9%	54.8%	-40.1%		29.2%

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**Where It Goes:**

**Personnel Expenses**

Employee and retiree health insurance premiums, primarily the impact of fiscal 2018 health insurance deduction holidays .....	\$278
Statewide general salary increase .....	181
Regular earnings net of abolished position .....	66
Turnover.....	17
Abolished position (1.0).....	-106
Reclassifications .....	-148
Other fringe benefit adjustments.....	29

**Sunny Day Fund**

Sunny Day funds for Marriott and Amazon (general funds) .....	15,000
Sunny Day loan disbursement to Marriott (special funds).....	5,000

**More Jobs for Marylanders Act**

More Jobs for Marylanders income and property tax credits .....	9,000
More Jobs for Marylanders sales tax refunds .....	1,000

**MEDAAF**

Increased MEDAAF funding .....	3,000
Reduction in MEDAAF funding for Brownfields revitalization grants.....	-500

**Other Changes**

Cybersecurity investment tax credit.....	2,000
Restoration of E-Innovation grant to Morgan State University .....	1,000
Increased contribution to Maryland Marketing Partnership .....	1,000
Increased funding for Maryland Tourism Board .....	1,000
Return of special funds for Preservation of Cultural Arts grants.....	1,000
Mandated increase for Maryland State Arts Council less \$1 million contingent cut.....	714
Increased funding for Office of Strategic Industries and Entrepreneurship.....	250
Increased programmatic support in Office of Biohealth.....	110
In-house marketing expertise replacing contractual services.....	-114
Reduced federal grants in the Office of Military and Veterans Affairs .....	-250
Reduced federal grants available for Office of International Investment and Trade .....	-750
Reduced special fund availability for MSBDFA .....	-1,395
Other .....	-311

**Total** **\$37,071**

MEDAAF: Maryland Economic Development Authority Assistance Fund

MSBDFA: Maryland Small Business Development Financing Authority

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

## **Personnel**

The fiscal 2019 allowance includes funds for a 2% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's statewide program and will be distributed to agencies during the fiscal year. This agency's share of the general salary increase is \$133,472 in general funds, \$43,248 in special funds, and \$4,706 in federal funds.

Other changes in personnel costs include a \$106,203 reduction due to the abolition of a position in the Office of Military and Federal Affairs after the federal Office of Economic Adjustment ended its Defense Industry Adjustment grant program. Reclassification costs also decline by \$148,344 due to higher than typical reclassification costs in fiscal 2018.

Not accounted for as a part of the budget are plans to shift 4 Commerce positions to the Department of Labor, Licensing, and Regulation to assist with that agency's efforts to support small businesses in complying with the State's new paid sick leave law. **Commerce should comment on the status of this shift of positions and why it is necessary.**

## **Financial Assistance Programs**

### **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 that create or retain substantial numbers of jobs and where considerable private investment is leveraged.

The fiscal 2019 allowance grows by a total \$20 million compared to the fiscal 2018 working appropriation. The fiscal 2019 allowance includes \$15 million in general funds for two economic incentive grants:

- \$10 million as the first portion of a \$150 million grant to Amazon as part of an incentive package to encourage the company to build a second headquarters in Montgomery County. The grant would be subject to clawback requirements and Legislative Policy Committee approval; and
- \$5 million for the second of four retention incentive payments to Marriott International.

**Exhibit 3** shows the fiscal 2019 special fund allowance increases by \$5 million to account for the first payment to Marriott, in addition to the fourth and final retention incentive payment to Northrop Grumman approved in 2016.

**Exhibit 3**  
**Sunny Day Fund Annual Appropriations**  
**Fiscal 2016-2019 Allowance**

<u>Year</u>	<u>General Funds</u>	<u>Purpose</u>	<u>Special Funds</u>	<u>Purpose</u>
2016	\$20,000,000	Northrop Grumman incentive	\$0	
2017	5,000,000	Marriott International incentive	10,000,000	Two Northrop Grumman payments
2018	0		5,000,000	Payment to Northrop Grumman
2019 Allowance	15,000,000	Marriott International and Amazon incentives	10,000,000	Payments to Marriott and Northrop Grumman

Source: Department of Commerce; Department of Legislative Services

The funds intended for Amazon are part of a much larger package of incentives that are part of HB 989, or the Promoting extraordinary Innovation in Maryland's Economy Act, which includes approximately \$3 billion in income and property tax credits targeted for Amazon. **The Department of Legislative Services (DLS) recommends making the \$10 million general fund allowance for Amazon contingent on the enactment of HB 989.**

### **More Jobs for Marylanders Act**

Chapter 149 of 2017, also known as the More Jobs for Marylanders Act, established the More Jobs for Marylanders Program, to be administered by Commerce. The law creates several tax incentives for manufacturing businesses that locate in certain jurisdictions. New businesses in Baltimore City and Allegany, Dorchester, Somerset, and Worcester counties (Tier 1 counties under the law) are eligible for a variety of incentives. The Commerce Secretary has also designated Baltimore, Prince George's, and Washington counties as Tier 1 counties under authority granted by the legislation; all other counties are Tier 2 counties.

New businesses in Tier 1 jurisdictions get a refundable State income tax credit of 5.75% of the wage of each new position, a State property tax credit of \$0.112 per \$100 of assessed value, a refund of sales and use tax, and the waiver of the State Department of Assessments and Taxation fees if the business creates at least five new jobs. Existing businesses in the State will receive a refundable State income tax credit of 5.75% of the wage per new position if five jobs (in Tier 1 locations) or 10 jobs (in Tier 2 locations) are created. The incentives are for a 10-year period. The fiscal 2019 allowance includes \$9 million for the income and property tax credits and \$1 million for the sales and use tax

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refunds, all in general funds. Both are the maximum amounts allowed for the respective credits per fiscal year.

Businesses must meet certain qualifications to be eligible for the incentives. The business must be a manufacturer (with the exception of refiners) and must offer ongoing job training or a postsecondary education program, such as tuition reimbursement. The new jobs must pay at least 120% of the State minimum wage and be filled for 12 months.

Since the law was signed, Commerce has undertaken marketing efforts to publicize the incentives, including providing information on the program as well as application materials. Commerce also presented at events such as a Business Resource Network event on the Eastern Shore, a gathering of the Rural Counties Coalition at the Maryland Association of Counties conference, and a manufacturing event at City Garage in Baltimore City.

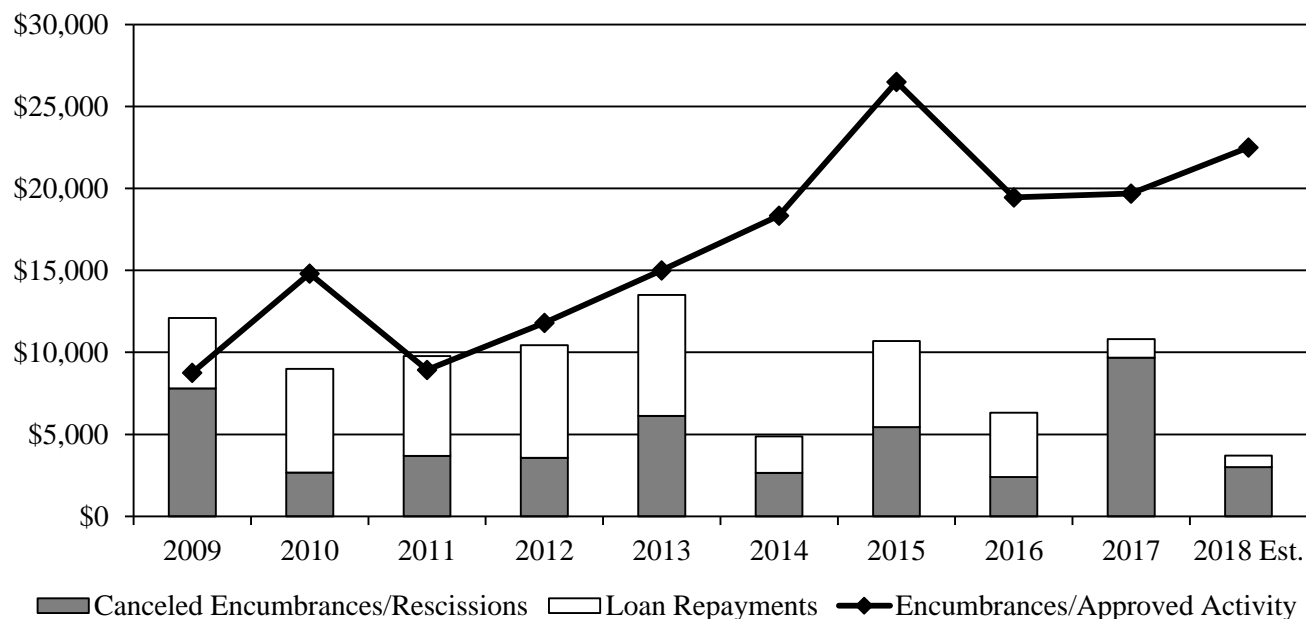
As of late December 2017, businesses had submitted 52 notices of intent to Commerce, and 18 of those companies submitted enrollment applications. The department was still reviewing applications and had yet to approve any. The applications represent approximately 500 jobs, with 11 companies applying from Tier 1 jurisdictions and 7 from Tier 2 counties.

Departmental bill HB 363 would expand the areas eligible as Tier 1 jurisdictions and increase the mandated appropriation for the income and property tax credits from \$9 million to \$13 million and the sales and use tax refunds from \$1 million to \$2 million.

### **MEDAAF**

MEDAAF is the department's primary and most flexible tool for business financial assistance. The fiscal 2019 allowance includes \$24.5 million in special funds. This represents a net increase of \$2.5 million over the fiscal 2018 working allowance (which includes a \$2.5 million special fund deficiency appropriation), although a \$16.3 million increase in special funds allows for a \$13.8 million reduction in general funds for the program. Special funds are largely a result of loan repayments or cancellations of previously encumbered loans. One reason for the increase in available special funds is the cancellation of a previously encumbered \$5 million loan to Novavax. This marks the first time since fiscal 2011 that the fund will not receive any general funds following several years of a significant recapitalization. Between fiscal 2012 and 2018, the fund received a total of \$51.3 million in general funds. **Exhibit 4** shows activity in the program since fiscal 2009. Loan repayments are expected to decline in fiscal 2018 to approximately \$706,000. The department has made a concerted effort to increase the amount of business assistance provided under the program.

**Exhibit 4**  
**MEDAAF Encumbrances and Repayments**  
**Fiscal 2009-2018 Est.**  
**(\$ in Thousands)**



MEDAAF: Maryland Economic Development Assistance Authority and Fund

Source: Department of Commerce

The combination of an increase in forgivable assistance and the lack of a general fund appropriation in fiscal 2019 means that the department anticipates the fund will decline to only \$1.5 million at the end of fiscal 2019, as shown in **Exhibit 5**. Commerce is currently in the process (defined by Commerce as 80% of the way to approval) with \$6.1 million in projects and is in discussions (defined as 60% of the way to approval) with 11 other firms regarding \$3.8 million in funding from MEDAAF.

**Exhibit 5**  
**Maryland Economic Development Assistance and Authority Fund**  
**Fund Balance Worksheet**  
**Fiscal 2016-2019 Est.**  
**(\$ in Thousands)**

	<b><u>Actual</u></b> <b><u>2016</u></b>	<b><u>Actual</u></b> <b><u>2017</u></b>	<b><u>Est.</u></b> <b><u>2018</u></b>	<b><u>Est.</u></b> <b><u>2019</u></b>
<b>Beginning Balance</b>	<b>\$5,337</b>	<b>\$234</b>	<b>\$14,003</b>	<b>\$16,094</b>
<b>Revenues</b>				
General Funds	\$7,273	\$13,523	\$13,823	0
Investment Income	405	516	458	431
Interest Income	182	165	177	119
Loan Repayments	3,912	1,122	706	755
Loan Recoveries and Grant Repayments	69	4,854	2,451	2,695
Canceled Prior Year Encumbrances	2,398	9,680	3,000	3,000
Brownsfield Local Property Tax Contribution	3,295	1,721	4,461	3,406
Other Income	386	5,420	2,937	3,382
<b>Total Revenues</b>	<b>\$17,920</b>	<b>\$37,001</b>	<b>\$28,013</b>	<b>\$13,788</b>
<b>Total Funds Available</b>	<b>\$23,257</b>	<b>\$37,235</b>	<b>\$42,016</b>	<b>\$29,882</b>
<b>Expenditures</b>				
Encumbrances/Approval Activity – Other	\$19,458	\$19,698	\$22,500	\$25,000
Rescissions of New Approvals	0	0	0	0
Operating Expenses	515	561	680	680
Indirect Expenses	3,050	2,973	2,742	2,742
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	0	0	0	0
<b>Total Expenditures</b>	<b>\$23,023</b>	<b>\$23,232</b>	<b>\$25,922</b>	<b>\$28,422</b>
<b>Ending Balance</b>	<b>\$234</b>	<b>\$14,003</b>	<b>\$16,094</b>	<b>\$1,460</b>

Source: Governor's Budget Books, Fiscal 2019

It should be noted that special funds within MEDAAF are used to defray other departmental operating costs, shown as indirect expense in the fund balance summary. The department uses special funds for a variety of its financing programs to pay the centralized costs required to administer the programs.

SB 67 would rename MEDAAF to Advantage Maryland, increase maximum assistance amounts, and change some loan requirements.

### **Cybersecurity Investment Incentive Tax Credit**

The Cybersecurity Investment Incentive Tax Credit provides incentives to early-stage Maryland-based companies that create cybersecurity products. The program has a mandated annual appropriation of \$2 million. However, the fiscal 2018 appropriation was made contingent on the passage of legislation altering the credit; that legislation failed. The primary reason for the lack of interest in the program is that the credits are provided to companies that secure an investment from investors. With no incentive to investors to participate, activity has been low. Without changes to this program, it is likely the credit will continue to be underutilized. SB 228 would alter the credit to award the tax credit to the investors rather than the company, extend the sunset of the credit from 2019 to 2023, and increase the maximum amount of the credits awarded. Departmental bill SB 310 would also alter the credit to award it to investors rather than the company. **DLS recommends making the \$2 million allowance contingent on the enactment of SB 228 or SB 310.**

### **MSBDFA**

MSBDFA is designed to provide financing options for small businesses that are not able to qualify for financing from private lending institutions or owned by socially and economically disadvantaged persons. Specifically, the program provides funding for working capital; supplies and materials; machinery and equipment acquisition; construction or renovation; franchise fees; and bid, performance, and payment bonds assistance. The fiscal 2019 allowance for MSBDFA is \$3.4 million, approximately \$1.4 million in special funds less than the fiscal 2018 working appropriation.

Chapter 409 of 2011 created the InvestMaryland program, a State-supported venture capital program that was funded through an auction of tax credits against the premium tax for insurance companies. The majority of the funding was provided to private venture companies and to the State's Maryland Venture Fund. The legislation also provided a three-year revenue stream for MSBDFA's Equity Participation Program. This program provides equity financing to help companies scale up to the next level, for franchising opportunities, or business acquisition. The program received over \$6.8 million over fiscal 2012, 2013, and 2014. MSBDFA was able to invest nearly \$1.4 million in three firms in fiscal 2017 using funding from InvestMaryland through the authority's Equity Participation Program, which is more than double what the program had previously invested using InvestMaryland funds. However, there still remains more than \$4.5 million in uninvested capital from the original InvestMaryland capitalization of \$6.9 million.



## **Partnership for Workforce Quality**

Partnership for Workforce Quality provides matching grants for small and midsize manufacturing and technology companies to upgrade skills of employees. Funds may be used for curriculum development, course materials, and instructor salaries and expenses. Funds are capped at \$200,000 per year per employer. The fiscal 2019 allowance includes \$1 million in general funds for the program, \$50,000 less than fiscal 2018, which was the first year of funding for the program. To date, Commerce has more than \$500,000 in grants encumbered and is in discussion with other firms requesting just over \$100,000 in grants.

## **Tourism, Film, and the Arts**

### **Maryland State Arts Council**

By statutory mandate, general funds allocated to the Maryland State Arts Council (MSAC) are required to grow each year by the expected percentage of growth in general fund revenues. Chapter 145 of 2016 increased available funding to MSAC by changing the allocation of admissions and amusement (A&A) tax revenues that were distributed to the Special Fund for Preservation of Cultural Arts (POCA) in Maryland. Chapter 145 specified that revenue attributable to a 5% State A&A tax rate on electronic bingo and electronic tip jars be disbursed so that *up to* an aggregate amount of \$1.0 million in each fiscal year goes to the special fund for POCA, and the remainder is distributed to MSAC, instead of *all* of the revenue going to POCA. Any funds distributed to MSAC from the A&A tax must be included in MSAC's prior fiscal year appropriation for purposes of calculating the required mandated general fund appropriation. Chapter 23 of 2017 (the Budget Reconciliation and Financing Act (BRFA)) placed a sunset of fiscal 2021 on diverting A&A tax revenue to MSAC and in determining the allowance to MSAC. Beginning in fiscal 2022, revenue from the A&A tax from certain electronic bingo machines will remain in the special fund for POCA rather than be distributed to MSAC.

The fiscal 2019 allowance includes \$20.8 million in general funds as required, but includes a \$1 million reduction contingent on passage of the BRFA of 2018. The BRFA provision would repeal the requirement that funding from the A&A tax must be included for the purposes of calculating the mandated general fund allowance to MSAC. As written, the BRFA provision would allow the general fund amount to be reduced by as much as \$2.1 million in fiscal 2019. Any changes to the fiscal 2019 allowance have an impact on out-years, as that change would carry through to the following years as the formula is based on the prior year's general fund appropriation. Including the contingent reduction, the MSAC allowance increases by \$1.7 million in general funds but decreases by \$1 million in special funds for a total increase of approximately \$714,000.

POCA is a special, nonlapsing fund in Commerce that consists primarily of State A&A tax revenue from electronic bingo and tip jar machine proceeds. The fund is used to provide supplemental grants to cultural arts organizations that qualify for general operating support grants from MSAC. Due to the diversion of funds for cost containment and other budgetary purposes, the special fund has never been used for its intended purpose. The fiscal 2019 allowance includes \$1 million in special funds for POCA, after receiving no funding in fiscal 2018.

As noted previously, fiscal 2019 actions would have impacts in fiscal 2020 and beyond. **Exhibit 6** shows potential funding levels for MSAC under different scenarios. Under current law, the general fund allowance grows by 14.7% in fiscal 2019, by 7.9% in fiscal 2020, and by 8.2% in fiscal 2021, after which growth returns to the same level as the Board of Revenue Estimates (BRE) estimate of State general fund growth. Under the Governor’s plan, general funds for MSAC increase by 9.2% in fiscal 2019 and then return to BRE-estimated levels of growth. This would result in \$12.9 million less in general funds for MSAC over the fiscal 2019 to 2023 period. **DLS recommends adopting the BRFA provision, but rejecting the proposed contingent reduction. Under this scenario, the general fund allowance for fiscal 2019 grows by the same amount as under current law, but growth then returns to BRE-estimated levels. This action would increase fiscal 2019 funding above that proposed by the Governor, but reduce fiscal 2020 to 2023 general fund spending by \$7.6 million.**

**Exhibit 6**  
**Maryland State Arts Council Funding Options**  
**Fiscal 2018-2023**  
**(\$ in Thousands)**

	<b>Working 2018</b>	<b>Allowance 2019</b>	<b>Forecast 2020</b>	<b>Forecast 2021</b>	<b>Forecast 2022</b>	<b>Forecast 2023</b>	<b>Difference from Current Law 2019-2023</b>
<b>Current Law</b>							
General Funds	\$18,086	\$20,753	\$22,383	\$24,220	\$25,112	\$26,033	<b>\$0</b>
Special Funds	2,000	1,000	1,000	1,000	0	0	
<b>Total</b>	<b>\$20,086</b>	<b>\$21,753</b>	<b>\$23,383</b>	<b>\$25,220</b>	<b>\$25,112</b>	<b>\$26,033</b>	
General Fund Growth Rate		14.7%	7.9%	8.2%	3.7%	3.7%	
<b>Governor’s Plan</b>							
General Funds	\$18,086	\$19,753	\$20,325	\$21,053	\$21,828	\$22,628	<b>-\$12,914</b>
Special Funds	2,000	1,000	1,000	1,000	0	0	
<b>Total</b>	<b>\$20,086</b>	<b>\$20,753</b>	<b>\$21,325</b>	<b>\$22,053</b>	<b>\$21,828</b>	<b>\$22,628</b>	
General Fund Growth Rate		9.2%	2.9%	3.6%	3.7%	3.7%	
<b>DLS Alternative</b>							
General Funds	\$18,086	\$20,753	\$21,354	\$22,119	\$22,933	\$23,774	<b>-\$7,568</b>
Special Funds	2,000	1,000	1,000	1,000	0	0	
<b>Total</b>	<b>\$20,086</b>	<b>\$21,753</b>	<b>\$22,354</b>	<b>\$23,119</b>	<b>\$22,933</b>	<b>\$23,774</b>	
General Fund Growth Rate		14.7%	2.9%	3.6%	3.7%	3.7%	

DLS: Department of Legislative Services

Source: Department of Legislative Services; Board of Revenue Estimates

### **Maryland Tourism Board**

The fiscal 2019 allowance includes \$9.25 million in general funds for the Maryland Tourism Board, a \$1.0 million, or 12.1%, increase from the fiscal 2018 working appropriation. Commerce indicates the increased funding will be used to enhance its existing efforts to bring visitors to the State. **DLS recommends reducing funding for the Maryland Tourism Board by \$1 million to level fund the program.**

### **Film Production Activity Tax Credit**

The fiscal 2019 allowance includes \$5.0 million in general funds for the Film Production Activity Tax Credit program, the same as the fiscal 2018 working appropriation. Chapter 486 of 2015 established the Maryland Film Production Activity Tax Reserve Fund. The amount of tax credits issued cannot exceed the amount appropriated to this fund in the State budget. The legislation stated that the intent of the General Assembly is that the appropriation to the fund is equal to the amount that Commerce reports as necessary to (1) maintain the current level of film production activity in the State; and (2) attract new film production activity to the State. In Commerce's annual report submitted in July 2017, the department estimates it would need \$18.7 million to maintain the current level of film production in the State. The estimate is based on the size of the credit for which the House of Cards season five production would have qualified had additional funds for the credit been available. House of Cards continued production for season six in the State, despite there only being \$5 million in tax credits available in fiscal 2018, which calls into question Commerce's estimate of what level of tax credits are required to keep film production activity in the State. The report also estimates that the department would require \$60.2 million in tax credits to attract new film production to the State.

## ***Issues***

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### **1. Maryland Marketing Partnership Fundraising Efforts**

Chapter 141 of 2015 established a public-private marketing entity called MMP to create a branding strategy for the State, market the State's assets to out-of-state businesses, recruit out-of-state businesses to locate and grow in the State, and foster public-private partnerships (P3) that encourage the location and development of new businesses in the State. A board of directors has been appointed, consisting of various members of State government and private industry. The fiscal 2019 allowance increases by \$1.0 million in special funds for the initiative. MMP launched its marketing campaign in summer 2017 with the objectives of improving the State's business image, increasing awareness of a Maryland location, and creating more jobs for Marylanders. The campaign's theme is "Maryland is Open for Business."

As a P3, MMP is partially funded by donations from businesses. Based on current commitments, Commerce expects to receive approximately \$1.3 million annually from private contributions in calendar 2017 to 2019. As part of its efforts to raise money from the private sector, the department is touting several benefits to contributors, which, depending upon the amount pledged, could include:

- joining an Advisory Team to the Secretary of Commerce;
- bi-annual Advisory Team meetings and "open communications with Secretary Gill;"
- attendance at an exclusive reception prior to the Governor's Business Summit that includes the Governor; and
- an opportunity to participate in select trade missions.

In an October 2014 memorandum to State agencies regarding agency fundraising, the State Ethics Commission has advised that solicitations that are part of the agency's mission are acceptable. However, the commission has also issued guidelines for agencies that are carrying out fundraising activities. A portion of the guidelines states that "it should be made clear to those solicited that a donation will not confer any special access or benefit in their dealings with the State." **DLS recommends that the department brief the committees on their fundraising efforts and the appearance of providing special access to MMP donors.**

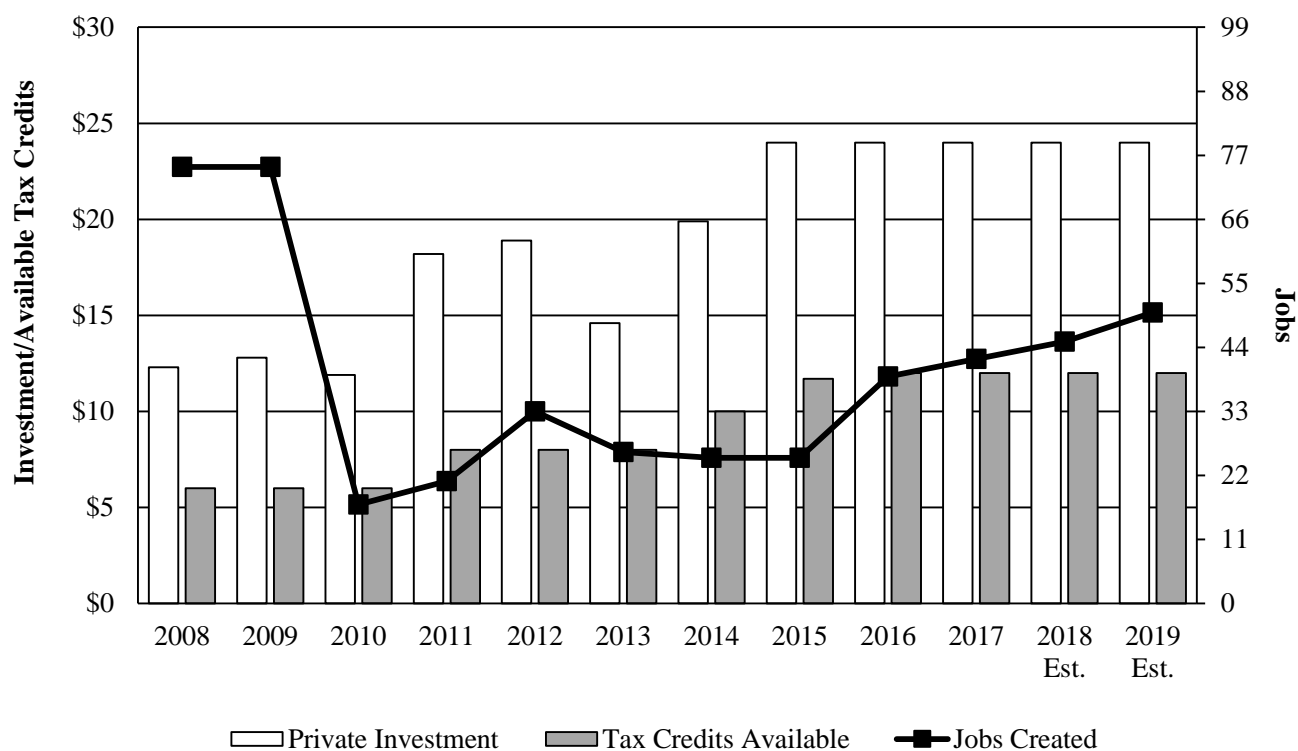
### **2. Questions Raised about Effectiveness of Biotechnology Tax Credit**

The Maryland Biotechnology Investment Incentive Tax Credit was established as an income tax credit for investors as an incentive to invest in qualified biotechnology firms. To be a qualified

firm, the company must meet specified criteria, including a headquarters and base of operation in Maryland and have fewer than 50 employees.

The department reports that the tax credit is a highly successful program and a “key industry incentive that supports Maryland’s robust biotechnology industry.” 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 Managing for Results submission, in fiscal 2017, for the \$12 million in appropriations for the credit, qualified companies created 42 jobs. That equates to more than \$285,000 per job. **Exhibit 7** 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.

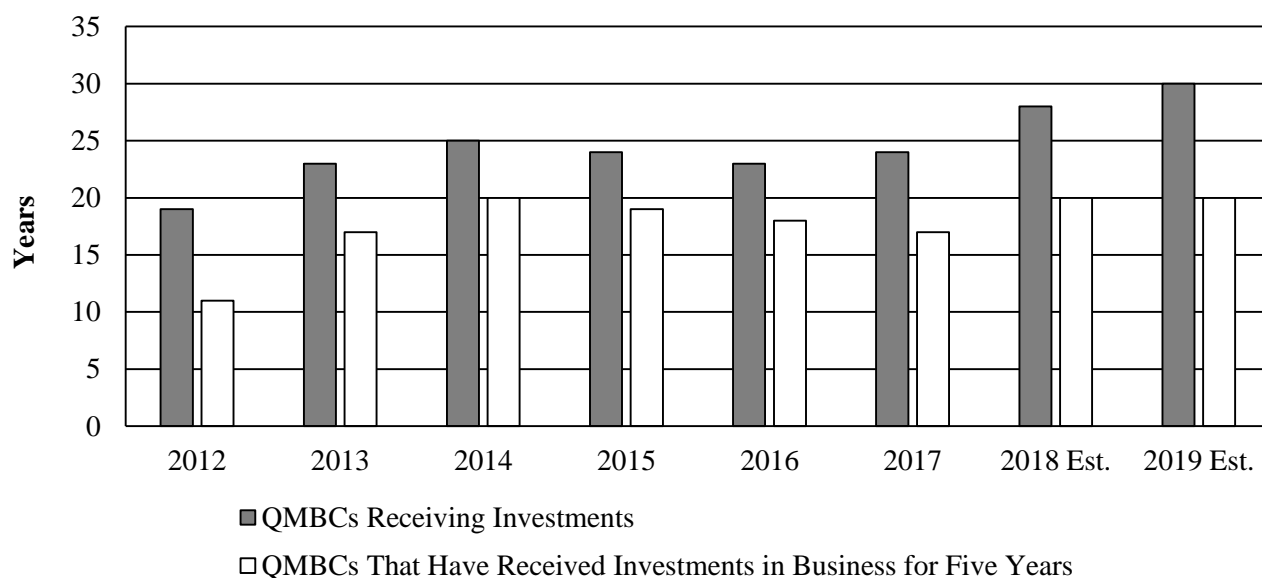
**Exhibit 7**  
**Biotechnology Investment Incentive Tax Credit**  
**Selected Performance Measures**  
**Fiscal 2008-2019 Est.**  
**(\$ in Millions)**



Source: Department of Budget and Management

The department has recently begun reporting on the number of qualified Maryland biotechnology companies that have received a tax credit and have remained viable in Maryland for five years or more. **Exhibit 8** shows the number of companies getting investments in each year, and the number of companies that have been in business for five years or more. This is based on a survey from participating companies so the data may not be exhaustive.

**Exhibit 8**  
**Biotechnology Investment Incentive Tax Credit**  
**Business Longevity**  
**Fiscal 2012-2019 Est.**



QMBC: Qualified Maryland Biotechnology Company

Source: Department of Budget and Management

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 Act requires that the biotechnology investment incentive tax credit be evaluated by a committee that the President of the Senate and the Speaker of the House of Delegates appoints by July 1, 2018. To assist the committee in its work, DLS has evaluated the credit.

In its draft report, DLS made several findings and recommendations. The main finding is that there is no evidence that the credit has increased investment in the biotechnology industry. While venture capital funding has trended upward nationally, Maryland venture capital funding has been volatile from year to year. The State has not closed the financing gap with industry leaders, California

and Massachusetts, and has actually fallen further behind. DLS failed to find that the program led to a statistically significant increase in industry investment. Additionally, data collected by DLS did not show that the State tax credit increased the total number of active biotechnology companies in Maryland. In the draft report, DLS advises that the General Assembly consider eliminating the program in its current form or allowing the tax credit to sunset in two years and replacing it with a more effective program.

The draft report raises several other issues about the program, including:

- Despite a significant overlap of funding between the biotechnology investment incentive tax credit and the Maryland Technology Development Corporation (TEDCO) programs, there is no coordination between TEDCO and Commerce.
- The legislative intent and performance metrics of the credit are not defined.
- The State tax credit program awards credits on a first come, first served basis if the company meets program requirements, rather than in a competitive process such as those established by the National Institutes of Health and TEDCO.
- Maryland's credit (50%, with an enhanced credit of 75% in certain counties) is more generous than most programs in other states. Of the current or recent programs, the median tax credit value was 33%, with the most common value between 20% and 33%. States that provide an enhanced credit tend to provide only an additional 5% or 10%, unlike Maryland, which provides an additional 25%.
- DLS found the program to be administratively burdensome. Administering the biotechnology investment incentive tax credit requires a processing company and investor applications and having staff conduct a science review to verify that the company meets the program's requirements related to proprietary technology. Other states authorize the administering agency to charge application fees that are used to defray program administrative costs for similar tax credit programs. Like most State tax credit programs, Maryland does not impose a fee for the biotechnology investment incentive tax credit.

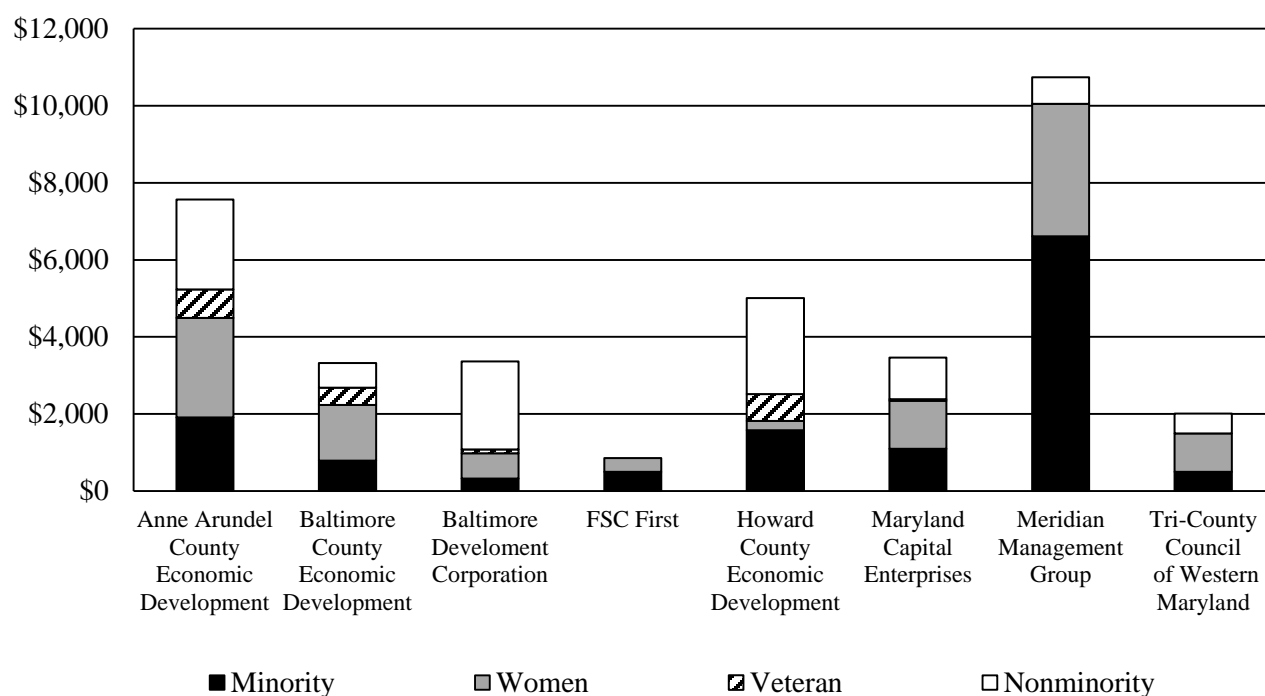
### **3. Small, Minority, and Women-Owned Businesses Account Temporarily Loses Funding Source**

Statute requires that 1.5% of the proceeds from VLT-authorized locations across the State be deposited in the SMWOBA. However, Chapter 23 (the BRFA) redirected those funds in fiscal 2018 through 2020 to instead be used for educational purposes. Therefore, there is no allowance in the budget for this program. The account is designed to provide capital investments and loans for small, minority, and women-owned businesses that are located primarily in the areas of the State with gaming facilities.

The action to redirect the SMWOBA funding stream was made due to the existing funds available. According to Commerce, fund managers had a combined \$13.2 million available to draw on as of February 2018. The department notes that there is approximately \$7.6 million in approved funding in fiscal 2018, with another \$3.3 million in funding in various stages of application, underwriting, or other evaluation. Additionally, the Department of Housing and Community Development is still in control of approximately \$2.3 million it is using for loans to assist businesses affected by the Ellicott City flooding in 2016. These funds will be returned to SMWOBA as the Ellicott City loans are repaid.

**Exhibit 9** shows the breakdown of SMWOBA-approved transactions since the program's inception, both by fund manager and by type of business assisted. **Commerce should comment on the impact to the program of the loss of the VLT funding stream.**

**Exhibit 9**  
**Small, Minority, and Women-Owned Businesses Account – Fund Managers**  
**Approved Transactions Since Program Inception**  
 (\$ in Thousands)



Source: Department of Commerce



## ***Operating Budget Recommended Actions***

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

, provided that \$2,000,000 of this appropriation shall be contingent on the enactment of SB 228 or SB 310.

**Explanation:** This language would make the general fund allowance under the Cybersecurity Investment Incentive tax credit contingent on a bill that alters the recipient of the tax credits.

### **Amount Reduction**

2. Reduce the increase in advertising under the Maryland Tourism Development Board to level-fund the program. \$ 1,000,000 GF

3. Strike the following language from the general fund appropriation:

~~, provided that this appropriation shall be reduced by \$1,000,000 contingent upon the enactment of legislation reducing Maryland State Arts Council funding.~~

**Explanation:** The striking of this language would eliminate a \$1,000,000 reduction in funding for the Maryland State Arts Council.

4. Add the following language to the general fund appropriation:

, provided that \$10,000,000 of this appropriation shall be contingent on the enactment of HB 989 or SB 877.

**Explanation:** This language would make a portion of the general fund allowance under the Economic Development Opportunities Program Account, or Sunny Day Fund, contingent on a bill that provides tax credits and other incentives targeted for Amazon.

<b>Total General Fund Reductions</b>	<b>\$ 1,000,000</b>
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## *Updates*

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### 1. Major Grants

The department awarded \$27.9 million in grants in fiscal 2017, as shown in **Exhibit 10**. The exhibit also shows another \$27.6 million is being disbursed in the current fiscal year.

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#### **Exhibit 10 Summary of Major Grants Fiscal 2017-2018**

	<b><u>Actual 2017</u></b>	<b><u>Appropriation 2018</u></b>
<b>Office of the Secretary and Business and Industry Sector Development</b>		
<b>International Trade and Development Grants</b>		
Maryland Israel Development Corporation	\$218,830	\$330,319
Maryland Israel Development Corporation (Trade Mission Support)	87,347	
World Trade Center Institute	225,000	225,000
Export Maryland – Small Business Foreign Trade Grants	345,610	220,000
<b>Military/Federal and Base Realignment and Closure Assistance (BRAC) Grants</b>		
Southern Maryland Navy Alliance	41,334	26,334
Army Alliance	43,834	26,333
Montgomery County – White Oak	15,333	15,333
Fort Meade Alliance	41,334	26,334
Fort Dietrick Alliance	42,083	21,583
Maryland Maritime Alliance	41,334	28,833
Military Alliance Council (Charles County)	41,500	24,000
Andrews Air Force Base, Business Roundtable of Prince George’s County	41,333	26,333
BRAC Support/Other	0	24,568
<b>Regional Council Grants</b>		
Tri-County Council of Western Maryland	200,000	200,000
Tri-County Council of Southern Maryland	145,000	200,000
Mid-Shore Regional Council	200,000	200,000
Tri-County Council Lower Shore	200,000	200,000
Upper Shore Regional Council	200,000	200,000
<b>Technology and Strategic Industries Support</b>		
Technology Council of Maryland	100,000	100,000
Chesapeake Regional Technology Council	30,000	30,000
Greater Baltimore Technology Council	60,000	60,000

*T00 – Department of Commerce*

	<b><u>Actual 2017</u></b>	<b><u>Appropriation 2018</u></b>
Chesapeake Regional Tech. Council	25,000	30,000
Economic Alliance of Greater Baltimore – BioPharma	62,000	62,000
Regional Manufacturing Institute		25,000
Manufacturing Extension Partnership	220,000	220,000
Other/TBD (Office of Strategic Industries and Entrepreneurship)	0	91,500
Maryland Technology Council, Inc. ImMD platform		
<b>Cybersecurity Specific Grants</b>		
Cybersecurity Industry Support/TBD	330,000	325,000
Cybersecurity Association of Maryland	25,000	25,000
Maryland Technology Council, Inc. – Cyber Workforce Program	100,000	100,000
Maryland Economic Development Corporation – National Cyber Center of Excellence Support	20,000	20,000
Anne Arundel Economic Development – Cyber Technology Development Scholarship Program	30,000	30,000
<b>Other Grants</b>		
Partnership for Workforce Quality	0	1,050,000
Historic Ships in Baltimore (Fleet Week)	700,000	0
Maryland Public Private Partnership	1,555,000	0
National Veterans Institute for Procurement	150,000	150,000
Maryland – Procurement Technical Assistance Program	140,000	140,000
Economic Alliance of Greater Baltimore	62,000	62,000
Governor’s Workforce Development Board	31,000	31,000
University of Maryland – Small Business Development Center	85,400	85,400
Not-For-Profit Development Fund Grants	0	73,890
Appalachian Regional Commission	15,960	15,500
<b>Grants Total from Office of the Secretary and Business and Industry Sector Development</b>	<b>\$5,871,232</b>	<b>\$4,721,260</b>
<b>Division of Tourism, Film, and the Arts</b>		
<b>Tourism</b>		
Capital Region USA, Inc.	\$400,000	\$400,000
Maryland Tourism Council	40,000	37,000
Prince George’s Conference	150,000	
Town of Ocean City	75,000	
Wicomico County Convention	75,000	
County Cooperative Grants (Various Recipients)	2,500,000	2,500,000
Various Other Tourism Grants	188,768	250,000
<b>Subtotal – Tourism</b>	<b>\$3,428,768</b>	<b>\$3,187,000</b>

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	<b><u>Actual 2017</u></b>	<b><u>Appropriation 2018</u></b>
<b>Maryland State Arts Council (MSAC) – Grants for Organization (GFO)</b>		
Academy Art Museum	\$115,571	\$120,626
Access Art		27,210
Adventure Theatre – Maryland Tourism Council	140,000	179,335
AEMS: Arts Education in Maryland Schools Alliance	26,724	26,588
AFI Silver Theatre and Cultural Center	150,000	180,000
American Dance Institute	85,000	
American Visionary Art Museum	235,321	201,467
Annapolis Chorale	28,840	29,500
Annapolis Symphony Orchestra	90,953	92,858
Art League of Ocean City		30,000
Artivate	81,584	76,760
Artpreneurs, Inc. dba Arts on the Block		28,406
Arts for the Aging, Inc.	28,338	27,407
ArtStream, Inc.	38,000	38,770
Avalon Foundation, Inc.	129,857	138,425
Ballet Theatre of Maryland, Inc.	64,256	68,550
Baltimore Choral Arts Society	54,593	51,949
Baltimore Clayworks, Inc.	86,578	60,000
Baltimore Museum of Art, The	1,132,837	969,159
Baltimore Symphony Orchestra, Inc.	2,042,152	2,056,969
Baltimore’s Festival of The Arts, Inc.	85,000	115,000
BlackRock Center for the Arts	88,261	81,868
Chesapeake Arts Center	36,866	34,000
Chesapeake Chamber Music, Inc. (Trading as Chesapeake Music)	31,573	29,782
Center Stage Associates, Inc.	705,808	563,488
Chesapeake Shakespeare Company	55,000	75,000
Columbia Center for Theatrical Arts, Inc.	37,311	40,733
Columbia Festival, Inc.	35,000	40,000
Common Ground on the Hill	44,759	43,313
Concert Artists of Baltimore	28,346	31,000
Creative Alliance, Inc.	158,184	146,469
Dance Exchange, Inc.	52,720	32,226
The Delaplaine Visual Arts Education Center	51,313	73,412
Everyman Theatre, Inc., The	240,000	273,768
Glen Echo Park Partnership for Arts and Culture, Inc.	145,825	140,764
Greater Baltimore Cultural Alliance	46,952	53,636
Imagination Stage, Inc.	406,046	392,859
Lumina Studio Theatre	29,164	

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	<b><u>Actual 2017</u></b>	<b><u>Appropriation 2018</u></b>
Maryland Hall for the Creative Arts	189,055	169,715
Maryland State Boychoir, The	30,034	40,000
Maryland Symphony Orchestra, Inc., The	116,855	107,005
Maryland Youth Ballet	40,000	60,000
Maryland National Capital Parks and Planning Commission (MNCPPC): Area Operations	60,000	41,255
MNCPPC: Arts and Cultural Heritage	300,000	287,094
Metropolitan Center for the Visual Arts (VisArts)	65,000	65,000
Montgomery College – Parilla Performing Arts Center	50,000	46,000
National Council for the Traditional Arts	52,455	49,484
National Philharmonic	163,707	144,914
Olney Theatre Center	360,000	400,000
Producers Club of Maryland – Maryland Film Festival	42,920	45,384
The Puppet Company	37,666	37,361
Pyramid Atlantic Art Center	38,324	33,502
Round House Theatre	259,955	232,721
Shriver Hall Concert Series	40,165	41,046
Strathmore Hall Foundation, Inc.	778,636	800,512
The Lyric Foundation, Inc.	300,000	32,000
University of Maryland – Clarice Smith Performing Arts Center	376,721	409,194
University of Maryland Baltimore County – Center for Art, Design, and Visual Culture	33,517	40,331
University of Maryland, College Park Campus – David C. Driskell Center	41,215	35,521
Walters Art Museum, The	1,111,156	1,039,418
Ward Museum of Wildfowl Art, The	79,196	70,898
Washington County Museum of Fine Arts	89,461	88,197
Waterfowl Revels, Inc.	40,000	43,000
Waterfowl Festival, Inc.	77,666	67,129
WBJC-FM	60,000	60,000
Weinberg Center for the Arts/City of Frederick	129,923	119,601
Wide Angle Youth Media		40,385
World Arts Focus dba Joe's Movement Emporium	78,196	80,542
Writer's Center, The	86,490	103,308
Young Audiences of Maryland, Inc. (YAMD)	166,068	176,188
Bender Jewish Community Center (JCC) of Greater Washington	40,000	42,029
City of Gaithersburg	57,557	54,676
City of Greenbelt	33,947	37,263
City of Rockville	25,000	
Frostburg State University	40,876	46,000
JCC/Gordon Center for Performing Arts	50,000	54,517

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	<b>Actual 2017</b>	<b>Appropriation 2018</b>
Jewish Museum of Maryland	49,883	45,530
Maryland Institute College of Art	28,769	29,435
Various other GFO grants	2,024,067	3,145,592
<b>Subtotal GFO</b>	<b>\$14,127,180</b>	<b>\$14,723,594</b>

**Community Arts Development**

Allegany Arts Council, Incorporated	\$119,111	\$120,147
Arts and Humanities Council of Montgomery County	168,682	170,291
Arts Council of Anne Arundel County, Inc.	144,300	145,753
Arts Council of Calvert County	120,036	121,134
Baltimore County Commission on Arts and Sciences	157,975	159,308
Baltimore Office of Promotion and the Arts	147,253	148,143
Caroline County Council of Arts, Inc.	117,064	118,120
Carroll County Arts Council	123,983	125,076
Cecil County Arts Council, Inc.	120,640	121,719
Charles County Arts Alliance, Inc.	123,393	124,563
Dorchester Center for the Arts, Inc.	117,054	118,089
Frederick Arts Council, Inc.	127,963	129,201
Garrett County Arts Council, Inc.	116,904	117,943
Harford County Public Library	128,218	129,379
Howard County Arts Council	131,452	132,795
Kent County Arts Council	116,409	117,443
Prince George's Arts and Humanities Council	161,992	163,283
Queen Anne's County Arts Council, Inc.	117,900	118,950
Salisbury Wicomico Arts Council	120,640	121,718
Somerset County Arts Council	116,715	117,763
St. Mary's County Arts Council	121,103	122,235
Talbot County Arts Council, Inc.	117,317	118,348
Washington County Arts Council, Inc.	123,059	124,180
Worcester County Arts Council	118,035	119,079
Various Community Arts Development Grants	5,000	0
<b>Subtotal Community Arts Development</b>	<b>\$3,082,198</b>	<b>\$2,956,273</b>

**Artists in Education**

Artivate	\$27,000	
InterAct Story Theatre Education Association	140,000	\$143,000
YAMD – Amanda Pellerin		29,000
YAMD – Arianna Ross	26,500	35,000
YAMD – Sue Trainor	47,600	

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	<b><u>Actual 2017</u></b>	<b><u>Appropriation 2018</u></b>
YAMD – Synetic Theater		33,000
YAMD	114,100	137,000
Various Artists in Education	312,386	473,000
<b><i>Subtotal Artist in Education</i></b>	<b><i>\$640,586</i></b>	<b><i>\$850,000</i></b>
<b>Individual Artist Awards</b>		
Various Individual Artist Awards	<b>\$239,000</b>	<b>\$250,000</b>
<b>Maryland Traditions</b>		
Creative Alliance	\$45,000	
National Council for the Traditional Arts	82,500	\$38,805
The Ward Museum	25,000	25,000
Various Maryland Traditions	95,105	222,195
<b><i>Subtotal Maryland Traditions</i></b>	<b><i>\$247,605</i></b>	<b><i>\$286,000</i></b>
<b>Other MSAC</b>		
Arts Every Day		\$25,000
Columbia's 50th		100,000
Fusion Partnership (901 Arts)		25,000
National Great Blacks in Wax Museum	\$200,000	
Mill House Motion Pictures (Millhouse Productions)		50,000
National Assembly of State Arts Agencies	50,000	450,000
<b><i>Subtotal Other MSAC</i></b>	<b><i>\$250,000</i></b>	<b><i>\$650,000</i></b>
<b>Preservation of Cultural Arts</b>		
<b>Total Preservation of Cultural Arts</b>	<b>\$0</b>	<b>\$0</b>
<b>Total MSAC and Preservation Grants</b>	<b>\$18,586,569</b>	<b>\$19,715,867</b>
<b>Total Department of Commerce Grants</b>	<b>\$27,886,569</b>	<b>\$27,624,127</b>

TBD: to be determined

Source: Department of Commerce

**Appendix 1**  
**Current and Prior Year Budgets**  
**Department of Commerce**  
**(\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2017</b>					
Legislative Appropriation	\$97,606	\$51,058	\$9,487	\$206	\$158,356
Deficiency Appropriation	0	5,600	0	0	5,600
Cost Containment	-2,750	0	0	0	-2,750
Budget Amendments	-393	-1,187	833	0	-747
Reversions and Cancellations	-486	-1,399	-736	0	-2,622
<b>Actual Expenditures</b>	<b>\$93,977</b>	<b>\$54,072</b>	<b>\$9,583</b>	<b>\$206</b>	<b>\$157,837</b>
<b>Fiscal 2018</b>					
Legislative Appropriation	\$84,636	\$37,614	\$1,661	\$0	\$123,912
Cost Containment	-100	0	0	0	-100
Budget Amendments	0	188	850	0	1,038
<b>Working Appropriation</b>	<b>\$84,536</b>	<b>\$37,802</b>	<b>\$2,511</b>	<b>\$0</b>	<b>\$124,850</b>

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.



## **Fiscal 2017**

The Department of Commerce (Commerce) closed out fiscal 2017 approximately \$519,000 below its legislative appropriation.

### **General Funds**

General funds decreased by \$3.6 million compared to the legislative appropriation. The largest decrease was due to cost containment actions taken by the Board of Public Works (BPW) in November 2016. As part of that action, BPW reduced general funds by \$2.0 million for the Cybersecurity Investment Incentive Tax Credit Program, by \$500,000 for the Maryland E-Innovation Initiative, by \$150,000 for the Maryland Tourism Development Board, and by \$100,000 for the Military Personnel and Service-Disabled Veteran Loan Program. The department further reduced the general fund legislative appropriation by approximately \$393,000, comprised of one amendment that increased the appropriation by approximately \$207,000 for centrally budgeted salary increments, and another amendment that decreased the appropriation by approximately \$599,000 for the transfer of six full-time equivalent positions to the Department of Information Technology.

Commerce reverted approximately \$486,000 in general funds. The fiscal 2017 budget included language that prevented \$400,000 in the Office of BioHealth from being used for the purpose of biotechnology business support and instead directed that amount to be transferred by budget amendment to the Maryland Technology Development Corporation to fulfill the intent of Chapter 141 of 2015, which restructured Maryland's economic development agencies. Commerce did not use the funds for that purpose, and therefore the amount was reverted. Commerce reverted the other \$86,000 in general funds due to lower than expected costs across the department.

### **Special Funds**

Special funds increased by \$3.0 million compared to the legislative appropriation. The fiscal 2018 budget allowance included a fiscal 2017 deficiency appropriation of \$5.0 million for the Economic Development Opportunity Fund to provide a payment under an agreement with Northrop Grumman. Other fiscal 2017 deficiency appropriations included \$500,000 in special funds for the Maryland E-Innovation Initiative and \$100,000 for the Military Personnel and Service-Disabled Veteran Loan Program, offsetting the general fund reductions noted above.

Commerce reduced the special fund appropriation by \$1.2 million via budget amendments. The amendments were:

- a decrease of \$2.5 million for a transfer of funds from the Small, Minority, and Women-Owned Business Investment Account to the Department of Housing and Community Development (DHCD) to provide loans to businesses impacted by Ellicott City flooding;

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- an increase of \$187,500 for the Maryland Not-For-Profit Development Fund. This amount was transferred from DHCD, as it was an unneeded administration fee that DHCD originally intended to use for its Ellicott City flood assistance efforts;
- an increase of \$900,000 for the Maryland Marketing Partnership, a public-private marketing partnership intended to develop a new branding campaign for the State;
- an increase of \$170,000 for the Small, Minority, and Women-Owned Businesses Account due to an accounting error that increased the fiscal 2017 grant disbursement amount above the appropriation; and
- an increase of \$55,523 for centrally budgeted salary increments.

Commerce canceled \$1.4 million in special funds. An overestimate of expenses in the Division of Business and Industry Sector Development led to the cancellation of slightly less than \$800,000. The budget amendment for \$187,500 noted above was unable to be expended prior to the close of the fiscal year; it will be spent in fiscal 2018. Commerce canceled another \$144,000 due to an overestimate of expenses, primarily salary, in the Division of the Secretary's Office. The department canceled approximately \$269,000 due to lower than expected costs across all other divisions.

### **Federal Funds**

Federal funds increased by approximately \$97,000 compared to the legislative appropriation.

Commerce increased the legislative appropriation by \$727,579 in federal funds through an amendment to appropriate a grant to the Division of International Investment and Trade from the U.S. Small Business Administration (SBA) by \$98,037 through an amendment for an unexpended portion of a fiscal 2016 grant to the Maryland State Arts Council and by \$7,076 for centrally budgeted salary increments.

Commerce canceled approximately \$736,000 in federal funds. The department canceled approximately \$530,000 in the Division of Business and Industry Sector Development because a federal grant award was less than anticipated at the time of the budget request and approximately \$155,000 in the Secretary's Office because a federal grant came late in the fiscal year, preventing the department from executing contracts before the close of fiscal 2017.

### **Fiscal 2018**

The fiscal 2018 working appropriation increases by \$937,500 compared to the legislative appropriation. Federal funds increase by \$850,000 for a grant from SBA to the Division of International Investment and Trade aimed at increasing the number of small businesses in the State that are exporting. Special funds increase by \$187,500 to fund the Nonprofit, Interest-Free, Micro Bridge Loan Account, which provides bridge loans to State grant recipients. The legislative appropriation declines by \$100,000 in general funds for the Military Personnel and Service-Disabled Veteran Loan Program as part of cost containment actions taken by BPW in September 2017.

**Appendix 2**  
**Object/Fund Difference Report**  
**Department of Commerce**

<u>Object/Fund</u>	<u>FY 17 Actual</u>	<u>FY 18 Working Appropriation</u>	<u>FY 19 Allowance</u>	<u>FY 18 - FY 19 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	193.00	193.00	192.00	-1.00	-0.5%
02 Contractual	24.84	28.90	28.40	-0.50	-1.7%
<b>Total Positions</b>	<b>217.84</b>	<b>221.90</b>	<b>220.40</b>	<b>-1.50</b>	<b>-0.7%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 21,906,467	\$ 21,720,661	\$ 21,592,433	-\$ 128,228	-0.6%
02 Technical and Spec. Fees	1,058,360	1,150,575	1,363,561	212,986	18.5%
03 Communication	455,497	455,274	464,816	9,542	2.1%
04 Travel	601,300	693,696	650,701	-42,995	-6.2%
06 Fuel and Utilities	23,131	20,988	23,438	2,450	11.7%
07 Motor Vehicles	280,037	327,166	296,168	-30,998	-9.5%
08 Contractual Services	11,125,902	12,789,224	14,152,453	1,363,229	10.7%
09 Supplies and Materials	214,387	275,512	254,507	-21,005	-7.6%
10 Equipment – Replacement	68,936	21,700	21,700	0	0%
11 Equipment – Additional	31,318	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	81,170,150	45,523,740	74,646,776	29,123,036	64.0%
13 Fixed Charges	2,415,734	2,428,611	2,447,356	18,745	0.8%
14 Land and Structures	38,485,956	39,442,500	49,147,500	9,705,000	24.6%
<b>Total Objects</b>	<b>\$ 157,837,175</b>	<b>\$ 124,849,647</b>	<b>\$ 165,061,409</b>	<b>\$ 40,211,762</b>	<b>32.2%</b>
<b>Funds</b>					
01 General Fund	\$ 93,976,551	\$ 84,536,491	\$ 101,153,728	\$ 16,617,237	19.7%
03 Special Fund	54,071,762	37,801,732	62,412,999	24,611,267	65.1%
05 Federal Fund	9,583,281	2,511,424	1,494,682	-1,016,742	-40.5%
09 Reimbursable Fund	205,581	0	0	0	0.0%
<b>Total Funds</b>	<b>\$ 157,837,175</b>	<b>\$ 124,849,647</b>	<b>\$ 165,061,409</b>	<b>\$ 40,211,762</b>	<b>32.2%</b>

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

**Appendix 3  
Fiscal Summary  
Department of Commerce**

<u>Program/Unit</u>	<u>FY 17 Actual</u>	<u>FY 18 Wrk Approp</u>	<u>FY 19 Allowance</u>	<u>Change</u>	<u>FY 18 - FY 19 % Change</u>
01 Office of the Secretary	\$ 1,665,596	\$ 1,589,622	\$ 1,527,981	-\$ 61,641	-3.9%
02 Office of Policy and Research	1,663,565	1,614,957	1,640,550	25,593	1.6%
03 Office of the Assistant Attorney General	1,373,894	1,501,274	1,472,896	-28,378	-1.9%
06 Office of Business and Legislative Relations	2,546,346	2,457,276	2,340,496	-116,780	-4.8%
07 Office of International Investment and Trade	3,423,582	3,576,601	2,826,391	-750,210	-21.0%
08 Office of Administration and Technology	4,012,143	4,034,676	3,870,238	-164,438	-4.1%
09 Division of Federal Partnerships	1,733,300	1,902,561	1,590,890	-311,671	-16.4%
10 Maryland Marketing Partnership	1,900,000	1,000,000	2,000,000	1,000,000	100.0%
01 Division of Business and Industry Sector Development	470,560	445,318	445,630	312	0.1%
02 Office of BioHealth	1,306,547	1,284,786	1,329,001	44,215	3.4%
03 Maryland Small Business Development Financing Authority	1,732,508	1,827,716	1,827,716	0	0%
04 Office of Business Development	4,587,899	4,474,145	4,557,964	83,819	1.9%
05 Office of Strategic Industries and Entrepreneurship	1,327,696	1,562,234	1,633,422	71,188	4.6%
06 Office of Cybersecurity and Aerospace	1,097,504	1,267,170	1,219,809	-47,361	-3.7%
07 Partnership for Workforce Quality	0	1,050,000	1,000,000	-50,000	-4.8%
08 Investment Finance Group	3,355,567	3,790,872	3,916,558	125,686	3.3%
09 Maryland Small Business Development Financing Auth.	6,221,151	6,255,000	4,860,000	-1,395,000	-22.3%
11 Maryland Not-For-Profit Development Fund	109,990	317,500	337,500	20,000	6.3%
12 Maryland Biotechnology Investment Tax Credit	12,000,000	12,000,000	12,000,000	0	0%
15 Small, Minority, and Women-Owned Business Investment Account	11,348,644	0	0	0	0%
16 Capital – Sunny Day Clearing Account	10,000,000	5,000,000	10,000,000	5,000,000	100.0%
18 Reservists and Service-related No-interest Loan Program	400,000	300,000	400,000	100,000	33.3%
19 Cybersecurity Investment Incentive Tax Credit Program	0	0	2,000,000	2,000,000	0%
20 Maryland E-Nnovation Initiative	8,499,500	8,500,000	9,500,000	1,000,000	11.8%
21 Maryland Economic Adjustment Fund – Business Assistant	102,071	200,000	200,000	0	0%
23 MEDAF – Business Assistance	19,698,234	20,000,000	25,000,000	5,000,000	25.0%
24 More Jobs for Marylanders Tax Credit	0	0	9,000,000	9,000,000	0%
25 More Jobs for Marylanders Sales and Use Tax Credit	0	0	1,000,000	1,000,000	0%
42 MIDFA – Treasury Small Business Credit Initiative	7,298,532	0	0	0	0%

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<u>Program/Unit</u>	<u>FY 17 Actual</u>	<u>FY 18 Wrk Approp</u>	<u>FY 19 Allowance</u>	<u>Change</u>	<u>FY 18 – FY 19 % Change</u>
01 Assistant Secretary Tourism, Film, and the Arts	757,312	747,849	723,198	-24,651	-3.3%
02 Office of Tourism Development	3,645,954	3,598,540	3,575,604	-22,936	-0.6%
03 Maryland Tourism Development Board	8,605,581	8,550,000	9,550,000	1,000,000	11.7%
05 Maryland State Arts Council	20,443,499	21,001,550	22,715,565	1,714,015	8.2%
06 Film Production Wage Credit Program	11,510,000	5,000,000	5,000,000	0	0%
08 Preservation of Cultural Arts Program	0	0	1,000,000	1,000,000	0%
01 Economic Development Opportunities Program Account	5,000,000	0	15,000,000	15,000,000	0%
<b>Total Expenditures</b>	<b>\$ 157,837,175</b>	<b>\$ 124,849,647</b>	<b>\$ 165,061,409</b>	<b>\$ 40,211,762</b>	<b>32.2%</b>
General Fund	\$ 93,976,551	\$ 84,536,491	\$ 101,153,728	\$ 16,617,237	19.7%
Special Fund	54,071,762	37,801,732	62,412,999	24,611,267	65.1%
Federal Fund	9,583,281	2,511,424	1,494,682	-1,016,742	-40.5%
<b>Total Appropriations</b>	<b>\$ 157,631,594</b>	<b>\$ 124,849,647</b>	<b>\$ 165,061,409</b>	<b>\$ 40,211,762</b>	<b>32.2%</b>
Reimbursable Fund	\$ 205,581	\$ 0	\$ 0	\$ 0	0.0%
<b>Total Funds</b>	<b>\$ 157,837,175</b>	<b>\$ 124,849,647</b>	<b>\$ 165,061,409</b>	<b>\$ 40,211,762</b>	<b>32.2%</b>

MEDAF: Maryland Economic Development Assistance Fund  
MIDFA: Maryland Industrial Development Financing Authority

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.