

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	FY 06	FY 07	FY 08	FY 07-08	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$55,128	\$74,026	\$75,778	\$1,752	2.4%
Special Fund	22,206	31,532	30,777	-755	-2.4%
Federal Fund	593	696	645	-50	-7.3%
Reimbursable Fund	<u>877</u>	<u>185</u>	<u>188</u>	<u>4</u>	<u>2.0%</u>
Total Funds	\$78,804	\$106,438	\$107,389	\$951	0.9%

- Three of four primary business assistance programs are set to increase in the fiscal 2008 allowance, reaching a total of \$26.9 million. Sunny Day funds would receive a \$2.0 million increase from general funds. Not including the effect of this appropriation, the business assistance programs decline by \$125,000 (0.5%) from the fiscal 2007 working appropriation.
- Other changes include a new \$1.0 million no-interest loan program related to military personnel, a \$600,000 increase for the Tourism Board, and a \$1.1 million general fund increase for the State Arts Council. The biotechnology investment tax credit and the film production wage rebate program are level funded.
- Personnel expenses are set to decline modestly. Part of the reduction is a result of one-time use of health insurance surplus funds. Absent use of these funds, the budget grows by \$1.9 million, or 1.8%.

Personnel Data

	FY 06	FY 07	FY 08	FY 07-08
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	292.00	292.00	290.00	-2.00
Contractual FTEs	<u>34.95</u>	<u>33.10</u>	<u>32.70</u>	<u>-0.40</u>
Total Personnel	326.95	325.10	322.70	-2.40

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	11.63	4.01%
Positions Vacant as of 12/28/06	11.00	3.77%

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

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- The allowance reflects the abolition of two positions in the Division of Regional Development.
- The agency's vacancy rate as of December 28, 2006, was 3.8%. This rate is lower than the allowance rate of 4.0%, which means that if all positions are filled, the agency will not have enough funds to support them.

Analysis in Brief

Issues

Many Agencies Have Performance Reporting Problems, but the Department Ranks Second Worst Among Those Audited: Although Managing for Results (MFR) reporting problems are common, some agencies stand out, and the Department of Business and Economic Development (DBED) is one of them. A recent review by the Office of Legislative Auditors (OLA) concludes that data collection has improved, but not data control. **The Department of Legislative Services (DLS) recommends that \$1.0 million be restricted until DBED identifies the position(s) responsible for agencywide MFR quality assurance, provides written departmental MFR control procedures that satisfy the Department of Budget and Management, and assigns an internal auditor to consistently monitor performance data collection and control.**

Fiscal 2007 Is the First Year for Biotechnology and Nano-biotechnology Programs: The fiscal 2007 budget includes \$6 million for a biotechnology investment tax credit and \$2.5 million to support nano-biotechnology research. These programs receive the same amounts in the fiscal 2008 allowance. **DBED should comment on the efficiency of the biotechnology tax credit compared to other tax credit programs. DBED should brief the committees on an overall strategy for State support of nano-biotechnology research.**

Base Realignment Studies Examine Workforce and Other Effects: DBED is producing four studies in fiscal 2007 that examine the effects of the federal military Base Realignment and Closure process. **DBED should comment on the different estimates of people moving into Maryland as a result of the base realignment process and estimates of the timeframe in which it occurs.**

Recommended Actions

	<u>Funds</u>
1. Add language to restrict funds until performance reporting is improved.	
2. Reduce Biotechnology Investment Tax Credit funds.	\$ 1,000,000
3. Reduce nano-biotechnology research funds.	250,000
4. Reduce Tourism Board funds.	600,000
5. Reduce Maryland State Arts Council funds that exceed the statutory requirement.	409,789
6. Reduce Film Wage Rebate funds.	2,875,000
7. Delete Sunny Day funds.	2,000,000
Total Reductions	\$ 7,134,789

Updates

Status of One-time Fiscal 2007 Grants to Certain Arts Organizations: The fiscal 2007 budget bill includes an appropriation of \$1.35 million within DBED's Division of Tourism, Film, and the Arts for one-time operating support for certain arts organizations. Restrictions for three of the five appropriations were instituted because the General Assembly was concerned that these organizations may have financial difficulties that cannot be solved in one year, and so approving the funds without further review could involve the State in ongoing problems.

Film Production Wage Rebate Program Receives \$6.9 Million in 2007 and Supports Five Productions So Far: DBED reports that \$4.9 million of the fiscal 2007 film wage rebate funds have been committed to five productions. In fiscal 2006, the program received \$4.0 million and supported three productions.

Major Grants: DBED awarded a total of \$18.3 million in grants in fiscal 2006. About \$21.2 million in awards is expected for fiscal 2007, and the 2008 allowance includes funds for \$21.4 million in awards.

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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 mission and goals are supported by six divisions:

- ***Division of Financing Programs:*** This division manages various financing programs that promote economic development opportunities. Financing incentives or credit enhancements are provided to commercial and industrial businesses in targeted market segments.
- ***Division of Business Development:*** This division includes staff who focus on particular industry types, such as biotechnology and manufacturing. The division provides site selection assistance to new or expanding businesses, produces market data and economic studies, and promotes international trade opportunities to Maryland firms.
- ***Division of Regional Development:*** This division provides a regional focus for the agency's activities. Staff from the Regional Development division are assigned with staff from the Financing and Business Development divisions to work on projects in the Baltimore, capital, and rural regions. The teams work to promote the competitive position of new and existing businesses, continued federal investment, strategic planning, and improved business climate. Five functions support the division: In-state Business Services; Military Affairs; Community Development; World Class Consortia; and Grants Administration.
- ***Division of Tourism, Film, and the Arts:*** This division promotes economic development by enhancing the attractiveness of cultural activities, historical sites, recreational centers, and sites for film and television production. Programs include the Office of the Assistant Secretary, Office of Tourism Development, Maryland Tourism Board, Maryland Film Office, and the Maryland State Arts Council.
- ***Office of the Secretary:*** This division provides leadership and direction to the department and maintains relationships with local, State, and federal agencies; county and municipal governments; and business organizations. The division includes the Deputy Secretary, Governor's Office of Business Advocacy, Maryland Economic Development Commission, Offices of the Attorney General, Communications Office, Equal Opportunity Office, Internal Audits, and Office of Economic Policy and Legislation.

- ***Office of Administration and Information Technology:*** This division provides administrative and technical support services for the department.

Business Assistance Programs

DBED administers four primary business assistance programs in its operating budget. These programs provide resources upon which the Divisions of Financing, Business Development, and Regional Development draw when they are assembling incentives to help a business expand or locate in Maryland. The budget in any particular year may include additional funds for certain industries, types of businesses, or geographic locations.

DBED also has a capital PAYGO program – the Maryland Economic Development Assistance Fund (MEDAF) – that, in fact, constitutes its primary resource for financial incentives. MEDAF is discussed in a separate analysis. Following are the four main assistance programs in the operating budget:

- ***Maryland Small Business Development Financing Authority (MSBDF):*** This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172 of 2001 broadened MSBDF's 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 (Enterprise):*** 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 co-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.
- ***Maryland Economic Adjustment Fund (MEAF):*** This program originally was established to provide loans to new or existing companies in communities suffering dislocation due to defense adjustments. The program has expanded and it often is 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 reside 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, and conditional loans and grants. The agency also administers several tax incentive programs that are not discussed in this analysis.

- **Investments:** DBED considers investments its 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 can scale down annually if the business is meeting or exceeding the job creation goals as agreed to in the loan documents; likewise, the rate can scale up if the business is not meeting these goals.
- **Conditional Loans and Grants:** With conditional loans, repayment is forgiven if the business achieves its employment goals. In effect, conditional loans are like 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 attached. DBED does not often use this form of assistance.

Performance Analysis: Managing for Results

For several years, the Department of Legislative Services has not analyzed DBED Managing for Results (MFR) data because of concerns about data collection and control procedures. These concerns could affect the reliability of the data. Although MFR reporting problems are common among State agencies, some stand out, and DBED is one of these. Please see Issue 1 for a complete discussion.

Governor's Proposed Budget

The fiscal 2008 allowance for DBED is \$107.4 million, a \$950,791 (0.9%) increase over the 2007 working appropriation. **Exhibit 1** shows the major changes.

Exhibit 1
Governor’s Proposed Budget
Department of Business and Economic Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2007 Working Appropriation	\$74,026	\$31,532	\$696	\$185	\$106,438
2008 Governor’s Allowance	<u>75,778</u>	<u>30,777</u>	<u>645</u>	<u>188</u>	<u>107,389</u>
Amount Change	\$1,752	-\$755	-\$50	\$4	\$951
Percent Change	2.4%	-2.4%	-7.3%	2.0%	0.9%

Where It Goes:

Personnel Expenses

Employee retirement system	\$408
Salary increments	203
Abolished positions	-121
Health insurance costs decline due to one-time savings.....	-772

Other Changes

Sunny Day Fund	2,000
Maryland State Arts Council grants	1,102
Military Reservists and Service Related no-interest loan program	1,000
Maryland Tourism Board	600
Maryland Economic Adjustment Fund	375
Grants for arts organizations from the Administrative Office of the Division of Tourism, Film, and the Arts.....	-1,650
Enterprise Investment Fund.....	-1,500
Computer system analysis, programming, and software applications.....	-309
Partnership for Workforce Quality	-230
Printing and reproduction.....	-83
Travel.....	-62
Other	-10

Total **\$951**

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

Personnel Expenses Decline Modestly

Expenses for regular personnel are set to decline by a net \$286,263. Of this amount, increases include \$202,917 for salary increments. Salary savings of \$121,470 are gained because DBED was directed to abolish two vacant positions in the Division of Regional Development as part of the State's workforce reduction efforts. Contributions to the employee retirement system increase by \$408,229. Health insurance costs are set to decline at DBED, as with all State agencies, because of one-time savings. These savings represent use of fund balance because the State has overbudgeted health insurance costs in recent years; at DBED, costs decline by \$771,882.

Two of Four Primary Business Assistance Programs Are Set To Increase

The Sunny Day fund is set to receive an increase of \$2.0 million in general funds, as shown in **Exhibit 2**. The general funds will be added to the fund balance held in the State Reserve Fund. As of October 2006, the fund balance had dipped to about \$700,000. Generally, Sunny Day expenditures are not budgeted. As Sunny Day projects are approved by the Legislative Policy Committee, funds are transferred to DBED and expended as special funds.

Among other primary business assistance programs in the operating budget, MEAF is set to increase by \$375,000. DBED reports that the fund has a backlog of projects since its fiscal 2006 appropriation was zero; the program was not funded that year because of concerns about the costs to administer it. The Enterprise Investment Fund decreases by \$1.5 million in the allowance because the agency does not anticipate enough special fund income, represented by returns on investments, to justify a higher appropriation level. General funds would be needed for additional appropriations. MSBDFEA receives level funding in the allowance.

Not including the effect of the Sunny Day fund, the primary business assistance programs decline by \$125,000 (0.5%) from the fiscal 2007 working appropriation.

Exhibit 2
DBED Business Assistance Summary
Fiscal 2005-2008
(\$ in Thousands)

Program	<u>2005</u>	<u>2006</u>	<u>2007</u> <u>Estimated</u>	<u>2008</u> <u>Estimated</u>	<u>Change</u> <u>07-08</u>	<u>% Change</u> <u>07-08</u>
Maryland Small Business Development Financing Authority	\$7,325	\$10,266 ¹	\$17,906	\$17,906	\$0	0.0%
Maryland Enterprise Investment Fund	6,729	5,137	6,500	5,000	-1,500	-23.1%
Maryland Economic Adjustment Fund	795	0	625	1,000	375	60.0%
Military Reservists and Service-related Loans		0		1,000	1,000	-
Sunny Day Fund ²	2,000	5,690	10,860	2,000	-8,860	-81.6%
Total	\$16,848	\$21,093	\$35,890	\$26,906	-\$8,985	-25.0%
Total Not Including Sunny Day	\$14,848	\$15,403	\$25,031	\$24,906	-\$125	-0.5%
Fund Source						
General	\$8,400	\$2,856	\$3,382	\$6,382	\$3,000	88.7%
Special	8,448	18,237	32,508	20,524	-11,985	-36.9%
Total	\$16,848	\$21,093	\$35,890	\$26,906	-\$8,985	-25.0%
Total Not Including Sunny Day	\$14,848	\$15,403	\$25,031	\$24,906	-\$125	-0.5%

¹Special funds in MSBDFA increased significantly in fiscal 2006 due to the transfer of its capital PAYGO appropriation to the operating budget.

²The \$2.0 million for Sunny Day funds in fiscal 2008 represents a general fund appropriation to the State Reserve Fund that will add to the fund balance. As of October 2006, the fund balance was about \$700,000. Expenditures are special funds and must be approved by the Legislative Policy Committee before they are transferred from the State Reserve Fund.

Note: Data are for business assistance amounts only in the operating budget.

DBED also administers business financing through the capital PAYGO budget and several tax incentive programs.

Related DBED administrative expenditures are not included.

Source: Governor's Budget Books, Fiscal 2006-2008

Other Changes Include a New Loan Program Related to Military Personnel

The DBED allowance includes \$1.0 million for a new legislatively mandated program to serve military reservists and service related personnel called to active duty. Chapter 389 of 2006 requires DBED, subject to the availability of funds and in consultation with the Department of Veterans Affairs, to establish a program to provide no-interest loans to service-disabled veterans and specified businesses owned by or employing military reservists or National Guard personnel called to active duty.

Funds in the administrative office of the Division of Tourism, Film, and the Arts are set to decrease. The fiscal 2007 appropriation for this office includes \$1.65 million for one-time grants to five arts organizations. The 2008 allowance for grants from this office is zero. The fiscal 2007 one-time grants are discussed in Update 1.

The Tourism Board receives a net increase of \$600,000 to fund advertising increases, bringing the allowance for the program to \$7.6 million. The statutorily mandated funding level is no less than \$6 million annually. The Arts Council receives a general fund increase of \$1.1 million over fiscal 2007, bringing the general fund level to \$15,397,003. This represents \$409,789 over the statutorily mandated annual increase for the program.

The biotechnology investment tax credit is level funded at \$6.0 million. This tax credit is new in fiscal 2007; DBED reports that the full 2007 amount has been issued to 181 investors supporting 20 companies. The film production wage rebate program is level funded at \$6.9 million. Results of this program are discussed in Update 2.

Issues

1. Many Agencies Have Performance Reporting Problems, but the Department Ranks Second Worst Among Those Audited

Many State agencies have challenges with reporting their performance data as part of the Managing for Results process. In fact, the Office of Legislative Audits (OLA) has conducted 19 audits of MFR data since reporting began in fiscal 2000, and only 16 of 126 measures (13%) among agencies could be certified. The Department of Budget and Management (DBM) estimates that three-quarters of the MFR data cannot be validated because of documentation problems.

Although MFR reporting problems are common, some agencies stand out. DBED is one of these; it ranks second worst among the agencies audited. To determine this ranking, the Department of Legislative Services did a weighted calculation of how many measures in each audit were certified, certified with qualification, had factors preventing qualification, or were inaccurate.

The budget committees have recognized DBED's MFR challenges and have twice adopted committee narrative asking OLA to determine if DBED has made improvements.

Auditors' Recent Conclusions Indicate Data Collection Has Improved, but Not Data Control

In the 2006 legislative session, the budget committees adopted narrative requesting that DBED report to OLA on steps taken to improve DBED's performance reporting. Then, as requested by the narrative, in January 2007 OLA reported to the budget committees its conclusions on the information provided.

The legislative request represents follow-up on the findings of OLA audits of fiscal 2001 and 2003 MFR data reported by DBED. In those audits, OLA found that the agency's decision to essentially decentralize the MFR data reporting process among divisions compromised reliability. The audits also indicated that reliability was compromised because DBED did not have a quality assurance process related to accumulating the data. For the January 2007 report, OLA did not conduct an audit; its conclusions are based on observation and inquiry.

The 2007 OLA conclusions state that DBED has taken significant steps to address data collection challenges by instituting a new computer system. This computer system has, among other features, records that are based on cases, rather than business names, to accommodate name changes and aliases. This feature helps eliminate duplication of records and double-counting performance data such as jobs created. Despite the ground gained in data collection, some challenges remain. For example, DBED cannot provide information on Sunny Day projects that have been withdrawn.

DBED also has made progress in establishing processes and controls to ensure data reliability. However, OLA still is concerned that the responsibility for data reliability rests with the various divisions, and there is no centralized process to verify that the controls are functioning as intended.

The audit of fiscal 2003 data recommended that DBED develop written departmental MFR procedures and that monitoring occur at the department level to verify the quality control of individual divisions. It should be noted that OLA's recent findings do not necessarily indicate that the performance data are unreliable.

Budget Instructions Include Guidance on Developing Controls

DBM includes information on MFR in its budget instructions for State agencies. The MFR instructions contain directives and recommendations on control procedures, including specific guidelines, templates, and samples for input controls, process controls, and review controls. The instructions state that control procedures should include periodic review of data collection and processing procedures, periodic review of data, independent audits, or other methods for validating data.

Agencies are supposed to submit their data definitions and control procedures to DBM for review with their MFR data. DBED has submitted certain control procedures to DBM, but apparently they are not comprehensive enough.

The State's MFR program exists so that resources are used to achieve measurable results with accountability, efficiency, and continuous improvement. If agencies do not take performance reporting seriously, the effort falls flat. DBED should be commended on the strides it has made to improve data collection with its new computer system. However, the will to institute data controls appears to be lacking. **DLS recommends that \$1.0 million be restricted until DBED identifies the position(s) responsible for agencywide MFR quality assurance, provides written departmental MFR control procedures that satisfy DBM, and assigns an internal auditor to consistently monitor performance data collection and control.**

2. Fiscal 2007 Is the First Year for Biotechnology and Nano-biotechnology Programs

Biotechnology Tax Credit Supports 20 Companies

The fiscal 2007 budget includes \$6 million for a biotechnology investment tax credit that was established by Chapter 99 of 2005, and the fiscal 2008 allowance provides \$6 million again. The credit is equal to 50% of an eligible investment made in a qualified biotechnology company, up to \$50,000 a year for individuals, and up to \$250,000 a year for corporations and venture capital firms. Importantly, a taxpayer claiming the credit may claim a refund in the amount by which the credit exceeds the tax liability in the year.

DBED reports that the full fiscal 2007 amount has been issued to 181 investors supporting 20 companies. The biotechnology tax credit is particularly generous in covering 50% of an investment. This means that every dollar invested generates one dollar in leveraged funds. Most State tax credit programs leverage higher amounts. For example, the research and development tax credit is 3% of

eligible expenses related to basic research and 10% of expenses that exceed the firm's four-year average of research and development expenses. The heritage tax credit program for historic properties is 20% of the investment amount. **DBED should comment on the efficiency of the biotechnology tax credit compared to other tax credit programs.**

Nano-biotechnology Program Bolsters Expertise at the University of Maryland, College Park

The fiscal 2007 budget includes an appropriation of \$2.5 million within DBED to support nano-biotechnology research at University System of Maryland (USM) institutions. The fiscal 2008 allowance includes another \$2.5 million for the program. Nano-biotechnology is expected to have medical applications in the areas of drug delivery, gene therapy, medical devices, and coatings. DBED and USM decided, with the approval of the budget committees, to have the fiscal 2007 funds administered by the University of Maryland, College Park's (UMCP) Clark School of Engineering.

To define its expertise in nano-technology, UMCP has established a Nano Center as a partnership among three of its colleges: the Clark School of Engineering; the College of Computer, Math, and Physical Sciences; and the College of Chemical and Life Sciences. Faculty associated with the Nano Center already have received federal research funds for nano-technology projects from agencies such as the National Science Foundation and the National Institute of Standards and Technology. Undergraduate students can minor in nanoscale science and technology.

The UMCP Clark School of Engineering in turn will award the funds to three types of projects:

- projects proposed by UMCP faculty (hired prior to July 1, 2006);
- projects jointly proposed by UMCP faculty and faculty at another Maryland public or private university, or UMCP faculty and researchers at a federal laboratory in Maryland; and
- recruitment packages for new faculty at UMCP.

Fiscal 2007 Focus Is on Hiring Faculty

DBED and USM decided to use \$1.76 million of the fiscal 2007 funds for 11 faculty recruitment packages. The limit on any single recruitment package is \$500,000. Nine of the faculty already have been hired and are at UMCP. Searches are underway for the remaining two faculty; one will be at the University of Maryland, Baltimore School of Pharmacy with a joint appointment at UMCP, and the other will be at the University of Maryland Biotechnology Institute with a joint appointment at UMCP.

The remaining \$740,000 of the fiscal 2007 appropriation will provide seed funding for a small number of research projects, DBED reports. Awards for projects proposed by UMCP faculty are estimated at \$50,000 to \$250,000 each. Jointly proposed projects could receive awards from

\$100,000 to \$500,000. The awards are agreed upon jointly by the Dean of the UMCP Clark School of Engineering, the USM Chancellor, and the DBED Secretary or their appointed representatives.

UMCP issued a Request for Proposals for the \$740,000 in fiscal 2007 project funds in early January 2007. As of the end of January, 52 proposals had been received. Most of the proposals involve some combination of faculty from UMCP, UMB, and UMBI. Given the strong response to the program among existing faculty, UMCP would use most of the fiscal 2008 funds to support research projects rather than faculty recruitment packages. **DBED should brief the committees on an overall strategy for State support of nano-biotechnology research.**

3. Base Realignment Studies Examine Workforce and Other Effects

In May 2005, the U.S. Department of Defense announced its latest decisions in the Base Realignment and Closure (BRAC) process. DBED is among the entities studying the effects on jobs and needs for infrastructure, education, and recruitment in Maryland. In fiscal 2007, DBED has received \$800,000 from the Department of Labor, Licensing, and Regulation to complete four studies related to the BRAC process.

The first study was released in March 2006 and focuses on BRAC activities affecting Aberdeen Proving Ground, Andrews Air Force Base, Bethesda Naval Hospital, and Fort Meade. The second study was released in June 2006 and examines the government and corporate need for workers with security clearances; it is estimated that 80 to 90% of the BRAC related positions will require some level of security clearance. The third study was also released in June 2006 and looks at the need for higher educational programs likely to support the people moving to Maryland. It does not study the effect on K-12 primary education needs for the families of people moving into the State. The final study was not provided but relates to environmental cleanup needs.

There is some debate as to what will be the magnitude of BRAC's effects on Maryland. For example, the Comprehensive Annual Financial Report for fiscal 2006 issued by the Comptroller's Office states that many of the jobs moved into the State might not bring the incumbents with them but instead could be filled by naturally occurring population growth in Maryland. **DBED should comment on the different estimates of people moving into Maryland as a result of the base realignment process and estimates of the timeframe in which it occurs.**

Recommended Actions

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

Provided that \$1,000,000 of this appropriation may not be expended until the Department of Business and Economic Development identifies the position(s) responsible for its agencywide Managing for Results (MFR) quality assurance, provides written departmental MFR control procedures that satisfy the Department of Budget and Management, and assigns an internal auditor to consistently monitor performance data collection and control.

Explanation: Many State agencies have challenges with reporting their performance data as part of the Managing for Results (MFR) process. In fact, the Office of Legislative Audits (OLA) has conducted 19 audits of MFR data since reporting began in fiscal 2000, and only 16 of 126 measures (13%) among agencies could be certified. Although MFR reporting problems are common, some agencies stand out. The Department of Business and Economic Development (DBED) is one of these; it ranks second worst among the agencies audited.

The budget committees have recognized DBED’s MFR challenges and have twice adopted committee narrative asking OLA to determine if DBED has made improvements. DBED should be commended on the strides it has made to improve data collection with its new computer system. However, the will to institute data controls appears to be lacking. The report on performance reporting improvements should contain a letter from the Department of Budget and Management certifying that MFR control procedures are satisfactory.

Information Request	Author	Due Date
Report on performance reporting improvements	DBED	45 days before release of funds

	<u>Amount Reduction</u>	
2. Reduce Biotechnology Investment Tax Credit funds. The reduction would improve the State’s ability to address an expected deficit. Furthermore, this program only began in fiscal 2007.	\$ 1,000,000	GF
3. Reduce nano-biotechnology research funds. The reduction would improve the State’s ability to address an expected deficit. Furthermore, this program only began in fiscal 2007.	250,000	GF

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4.	Reduce Tourism Board funds. The reduction will improve the State's ability to address an expected deficit.	600,000	GF
5.	Reduce Maryland State Arts Council funds. The allowance exceeds the statutorily required appropriation.	409,789	GF
6.	Reduce Film Wage Rebate funds. This reduction will improve the State's ability to address an expected deficit and brings the funding back to the fiscal 2006 level.	2,875,000	GF
7.	Delete Sunny Day funds. This reduction will improve the State's ability to address an expected deficit.	2,000,000	GF
Total General Fund Reductions		\$ 7,134,789	

Updates

1. Status of One-time Fiscal 2007 Grants to Certain Arts Organizations

The fiscal 2007 budget bill includes an appropriation of \$1.35 million within DBED's Division of Tourism, Film, and the Arts for one-time operating support for certain arts organizations. The appropriation is budgeted in the administrative office of the division (arts grants typically are awarded by the State Arts Council program) and include \$750,000 for the Baltimore Symphony Orchestra (BSO), \$375,000 for the Baltimore Opera Company, and \$225,000 for the Creative Alliance. The funds were restricted until certain information was provided to and reviewed by the budget committees.

The appropriations were intended as one-time grants to help mitigate financial challenges the three organizations are experiencing. However, restrictions were instituted because the General Assembly was concerned that these organizations may have financial difficulties that cannot be solved in one year, and so approving the funds without further review could involve the State in ongoing problems. The organizations were required to submit plans to address their financial challenges and a list of all grants they receive from State agencies. The BSO also was required to submit its three most recent audited financial statements and an explanation of how its deficit will be eliminated without State support beyond the amount it customarily receives.

It should be noted that Supplemental Budget No. 1 of fiscal 2007 added funds to the Division of Tourism, Film, and the Arts administrative office for two more arts organization grants. The National Philharmonic receives \$200,000 for its endowment campaign and \$100,000 goes to the Annapolis Symphony Orchestra to support costs for in-state travel and a free summer concert series. The budget bill did not restrict the appropriations for these two organizations.

Baltimore Opera Receives Its Funds, BSO Receives Half Its Funds, and Creative Alliance Submits Its Information in January

As of January 2007, the Baltimore Opera Company submitted its information and received its funds, and the BSO submitted its information and received half of its funds. The Creative Alliance submitted its information in January 2007, and DLS is in the process of reviewing it on behalf of the budget committees.

The BSO received only half of its grant because the budget committees were concerned about the viability of the BSO's proposed plan to reduce a \$7.3 million deficit to zero by the end of its fiscal 2007 year. More importantly, the State Arts Council decided this year to release only half of the organization's customary grant until interim information is reviewed. In the same vein, the budget committees asked the BSO to submit revenue and expenditure information again in May 2007 so they can consider releasing the second half of the one-time grant.

2. Film Production Wage Rebate Program Receives \$6.9 Million in 2007 and Supports Five Productions So Far

The fiscal 2007 working appropriation for the film production wage rebate program is \$6.9 million. In the fiscal 2008 allowance, the program is level funded at \$6.9 million. The program provides qualified film productions in the State a 50% rebate on the first \$25,000 of each qualified employee's wages, up to a maximum of \$2.0 million per production.

DBED reports that \$4.9 million of the fiscal 2007 funds have been committed to five productions. The cable television series *The Wire* will receive \$2.0 million; a film called *13 Tzemti* has been offered \$1.5 million; a film called *Fruitcake* by John Waters has a commitment of \$750,000; a film called *Boy of Pigs* finished filming in November 2006 and is scheduled to receive \$300,000; and a film called *Cut Off* has a commitment of \$300,000.

In fiscal 2006, the film wage rebate program received \$4.0 million and supported three productions.

3. Major Grants

DBED awarded a total of \$18.3 million in grants in fiscal 2006, as shown in **Exhibit 3**. The exhibit also shows that \$21.2 million in awards is expected for fiscal 2007, and the 2008 allowance includes funds for \$21.4 million in awards.

Exhibit 3
Department of Business and Economic Development
Summary of Major Grants

	<u>Actual</u> <u>Fiscal 2006</u>	<u>Budget</u> <u>Appropriation</u> <u>Fiscal 2007</u>	<u>Budget</u> <u>Allowance</u> <u>Fiscal 2008</u>
Division of Business Development			
Baltimore Symphony Orchestra Overseas Tour	\$150,000	\$0	\$0
High Tech Council, Montgomery County *	140,000	140,000	140,000
Greater Baltimore Technology Council *	140,000	140,000	140,000
MD Israel Development Corp.	32,833	100,000	100,000
World Trade Center Institute (WTCI)	73,600	184,000	184,000
Export MD – Small Business Foreign Trade Grants	93,567	65,000	100,000
Total – Division of Business Development	\$630,000	\$629,000	\$664,000
Division of Small Business Assistance			
Strategic Assistance Consulting Fund – Booth	\$307,220	\$250,000	\$250,000
Small Business Development Center/ University of Maryland – PTAP	150,000	150,000	150,000
U of MD – SBDC	85,400	85,400	85,400
Micro enterprise Council of MD	50,000	50,000	50,000
Total – Division of Small Business Assistance	\$592,620	\$535,400	\$535,400
Division of Tourism, Film, and the Arts			
Downtown Partnership	\$100,000	\$88,000	\$100,000
Capital Region USA, Inc.	300,000	258,992	300,000
Baptist Convention USA, Inc.	57,362	0	0
MD Tourism Council	35,000	35,000	0
Preakness Celebration Inc.	30,000	30,000	0
Pride of Baltimore Inc.	35,000	35,000	0
Baltimore Symphony Orchestra	0	750,000	0
Baltimore Opera Company	0	375,000	0
Creative Alliance	0	225,000	0
Maryland State Arts Council Grants			
Baltimore Symphony Orchestra	1,432,860	2,012,361	
The Walters Art Gallery	868,464	967,720	
The Baltimore Museum of Art	771,333	978,182	
Baltimore Clayworks	65,631	90,172	
Center Stage Associates, Inc.	462,226	585,876	
Baltimore Opera Company, Inc.	365,795	431,349	
Maryland-National Capital Park and Planning	192,473	245,974	
American Visionary Art Museum, Inc.	123,597	173,830	
Olney Theater Center for the Arts	173,947	184,642	
Round House Theater, Inc.	176,790	245,096	
Maryland Hall for the Creative Arts	65,000	85,000	
Strathmore Hall Arts Center	166,888	371,780	
Maryland Symphony Orchestra	62,642	89,036	

T00 – Department of Business and Economic Development

	<u>Actual Fiscal 2006</u>	<u>Budget Appropriation Fiscal 2007</u>	<u>Budget Allowance Fiscal 2008</u>
Jewish Community Center of Washington	64,607	65,000	
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	234,201	328,273	
Liz Lerman Dance Exchange	75,695	94,449	
Baltimore's Festival of the Arts, Inc.	48,000	60,361	
Jewish Community Center of Baltimore/ Gordon Center	57,395	60,000	
Maryland Historical Society	50,000	60,000	
University of Maryland/Clarice Smith Performing Arts Center at MD	100,000	298,190	
Nat'l Chamber Orch Society, Inc./ Nat'l Philharmonic	35,000	55,000	
Everyman Theatre Inc.	69,555	89,735	
Academy Art Museum	51,298	69,871	
Morgan State University – Choir	0	65,000	
Annapolis Symphony Orchestra	43,714	66,609	
Class Acts Arts, Inc.	39,646	70,258	
Howard Community College Education	39,865	54,090	
Washington County Museum of Fine Arts	36,000	56,101	
The Writer's Center	41,686	57,888	
Grants to All Other Arts Organizations	1,806,546	3,015,816	
Subtotal – Grants to Arts Organizations **	7,720,854	11,027,659	11,470,477
Community Arts Development	1,743,798	1,986,333	2,388,807
Artists in Education	715,909	541,500	768,000
Individual Artists and Other Programs	390,032	360,000	390,000
Total – Maryland State Arts Council	10,570,593	13,915,492	15,017,284
Total – Division of Tourism, Film, and the Arts	\$11,217,955	\$15,712,484	\$15,417,284
Division of Regional Development			
Community Development			
Tri-County Council of Western Maryland	\$154,684	\$140,000	\$140,000
Tri-County Council of Southern Maryland	154,685	140,000	140,000
Mid-Shore Regional Council	214,684	140,000	140,000
Tri-County Council Lower Shore	154,684	140,000	140,000
Greater Baltimore Technology Council	140,000	140,000	140,000
Upper Shore Regional Council	214,684	140,000	140,000
Technology Council of Maryland	140,000	140,000	140,000
Econ. Alliance of Greater Baltimore	50,000	50,000	50,000
University of Maryland – MTES	45,000	45,000	45,000
Bowie State Incubator	385,000		
Military/Federal and BRAC Assistance			
Southern Md. Navy Alliance	38,233	50,000	50,000
Army Alliance	145,000	75,000	75,000
Montgomery County	24,000	22,000	22,000
Fort Meade Alliance	120,000	20,000	20,000
Fort Detrick Alliance	20,000	20,000	20,000

T00 – Department of Business and Economic Development

	<u>Actual Fiscal 2006</u>	<u>Budget Appropriation Fiscal 2007</u>	<u>Budget Allowance Fiscal 2008</u>
Maryland Maritime Alliance	30,000	20,000	20,000
Town of Indian Head	75,000	20,000	20,000
Andrews Air Force Base, Business Roundtable of Prince George’s County	25,000	25,000	25,000
Army Alliance Statewide BRAC Support	50,000	50,000	50,000
Workforce Development and Coordination			
Governor's Workforce Investment Board	23,494	23,494	23,494
Maryland Industrial Training Program	2,483,075	244,7525	241,6441
Partnership for Workforce Quality	1,303,707	1,237,954	1,007,954
Total – Division of Regional Development	\$5,990,930	\$5,085,973	\$4,824,889
Total DBED	\$18,341,505	\$21,962,857	\$21,441,573

*The responsibility for the two technology Council grants was transferred from Regional to Business Development in fiscal 2007.

**The distribution of Maryland State Arts Council grants to arts organizations for fiscal 2008 is not known at this time.

Source: Department of Business and Economic Development

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$54,963	\$27,315	\$593	\$363	\$83,234
Deficiency Appropriation	150	0	0	0	150
Budget Amendments	14	4,513	0	830	5,357
Reversions and Cancellations	0	-9,621	0	-316	-9,937
Actual Expenditures	\$55,128	\$22,206	\$593	\$877	\$78,804
Fiscal 2007					
Legislative Appropriation	\$73,766	\$20,601	\$696	\$185	\$95,247
Budget Amendments	260	10,931	0	0	11,191
Working Appropriation	\$74,026	\$31,532	\$696	\$185	\$106,438

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

Fiscal 2006

DBED finished fiscal 2006 at \$4.4 million below its legislative appropriation.

General funds: General fund increases included \$225,055 for the State employee cost-of-living adjustment (COLA) and a \$150,000 deficiency appropriation for the National Congress of Christian Education convention in Baltimore City. General fund decreases included \$45,726 as part of the statewide realignment of telecommunications appropriations and a transfer of \$165,000 to the University of Maryland, College Park to support the Maryland Cooperative Extension program.

Special funds: The actual fiscal 2006 special fund expenditure was a net \$5.1 million below the legislative appropriation. Budget amendments totaled \$4.5 million. Amendment increases included \$4.0 million for the Enterprise Investment Fund that was available due to gains in and liquidations of the program's investments, and \$512,759 for production of the Tourism Development Board's publications. Cancellations included \$7.7 million for MSBDFAs loans, \$863,000 for Enterprise Investment fund investments, and \$395,000 related to the administration of DBED's finance accounts.

Reimbursable funds: The actual fiscal 2006 reimbursable fund expenditure was \$514,000 above the legislative appropriation. Budget amendments were \$830,000, including \$800,000 received from the Department of Labor, Licensing, and Regulation for studies related to the federal base realignment process. Cancellations were \$316,000, of which \$313,000 was expected from the Maryland Department of Transportation (MDOT) in support of international marketing and foreign offices, but DBED reports that MDOT decided not to transfer the funds.

Fiscal 2007

General funds have increased by \$263,592 to support the employee COLA, and they have decreased by \$3,307 from a transfer to DBM to support a salary study for various State agencies. Special funds have increased by \$10.9 million, with all funds related to Sunny Day approvals except a small amount (\$71,498) to support the employee COLA.

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

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	292.00	292.00	290.00	-2.00	-0.7%
02 Contractual	34.95	33.10	32.70	-0.40	-1.2%
Total Positions	326.95	325.10	322.70	-2.40	-0.7%
Objects					
01 Salaries and Wages	\$ 22,227,272	\$ 23,387,357	\$ 23,101,094	-\$ 286,263	-1.2%
02 Technical and Spec. Fees	1,629,199	1,426,150	1,410,615	-15,535	-1.1%
03 Communication	912,689	906,163	913,616	7,453	0.8%
04 Travel	708,089	827,390	765,100	-62,290	-7.5%
06 Fuel and Utilities	182,133	254,901	264,851	9,950	3.9%
07 Motor Vehicles	342,861	331,665	428,834	97,169	29.3%
08 Contractual Services	11,343,710	11,935,718	12,464,176	528,458	4.4%
09 Supplies and Materials	312,581	319,750	316,767	-2,983	-0.9%
10 Equip - Replacement	201,325	17,748	17,748	0	0%
11 Equip - Additional	45,072	60,000	0	-60,000	-100.0%
12 Grants, Subsidies, and Contributions	23,509,343	39,809,828	41,571,913	1,762,085	4.4%
13 Fixed Charges	2,036,540	2,130,897	2,228,644	97,747	4.6%
14 Land and Structures	15,352,848	25,030,750	23,905,750	-1,125,000	-4.5%
Total Objects	\$ 78,803,662	\$ 106,438,317	\$ 107,389,108	\$ 950,791	0.9%
Funds					
01 General Fund	\$ 55,127,523	\$ 74,026,018	\$ 75,778,477	\$ 1,752,459	2.4%
03 Special Fund	22,206,357	31,531,818	30,777,000	-754,818	-2.4%
05 Federal Fund	592,782	695,713	645,240	-50,473	-7.3%
09 Reimbursable Fund	877,000	184,768	188,391	3,623	2.0%
Total Funds	\$ 78,803,662	\$ 106,438,317	\$ 107,389,108	\$ 950,791	0.9%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Fiscal Summary
Department of Business and Economic Development

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Secretariat Services	\$ 2,118,722	\$ 2,351,238	\$ 2,102,501	-\$ 248,737	-10.6%
02 Maryland Economic Development Commission	5,510	5,510	5,510	0	0%
03 Office of the Attorney General	1,300,732	1,416,232	1,394,937	-21,295	-1.5%
01 Office of Administration	4,176,748	4,592,197	4,620,729	28,532	0.6%
01 Div. of Economic Policy, Research, and Legislation	1,271,100	1,279,526	1,253,860	-25,666	-2.0%
01 Division of Small Business Assistance	1,687,765	1,767,546	1,954,725	187,179	10.6%
01 Division of Business Development	8,169,362	8,669,504	8,492,900	-176,604	-2.0%
02 Maryland Biotechnology Investment Tax Credit Reser	0	6,000,000	6,000,000	0	0%
03 Nanotech-biotech Initiative Fund	0	2,500,000	2,500,000	0	0%
01 Assistant Secretary for Financing Programs	1,280,263	1,553,505	1,194,331	-359,174	-23.1%
03 Maryland Small Business Development Financing Auth	1,365,776	1,514,614	1,547,588	32,974	2.2%
05 Consolidated Operations	1,545,210	1,854,751	1,940,729	85,978	4.6%
08 Maryland Enterprise Investment Fund	741,402	1,083,624	984,532	-99,092	-9.1%
09 Maryland Small Business Development Financing Auth	10,266,089	17,905,750	17,905,750	0	0%
17 MD Enterprise Investment Fund and Challenge Programs	5,136,759	6,500,000	5,000,000	-1,500,000	-23.1%
18 Reservists and Service-related No-interest Loan Program	0	0	1,000,000	1,000,000	0%
21 Maryland Economic Adjustment Fund	0	625,000	1,000,000	375,000	60.0%
01 Assistant Secretary and Administration	619,699	2,354,024	568,280	-1,785,744	-75.9%
02 Office of Tourism Development	5,735,554	5,557,151	5,516,505	-40,646	-0.7%
03 Maryland Tourism Board	5,945,765	7,000,000	7,600,000	600,000	8.6%
04 Maryland Film Office	841,132	849,137	845,391	-3,746	-0.4%
05 Maryland State Arts Council	12,139,664	15,277,160	16,475,054	1,197,894	7.8%
06 Film Production Wage Credit Program	4,000,000	6,875,000	6,875,000	0	0%
01 Division of Regional Development	9,152,703	7,668,894	7,602,832	-66,062	-0.9%
03 Partnership for Workforce Quality	1,303,707	1,237,954	1,007,954	-230,000	-18.6%
01 Economic Development Opportunities Program Account	0	0	2,000,000	2,000,000	0%
Total Expenditures	\$ 78,803,662	\$ 106,438,317	\$ 107,389,108	\$ 950,791	0.9%
General Fund	\$ 55,127,523	\$ 74,026,018	\$ 75,778,477	\$ 1,752,459	2.4%
Special Fund	22,206,357	31,531,818	30,777,000	-754,818	-2.4%
Federal Fund	592,782	695,713	645,240	-50,473	-7.3%
Total Appropriations	\$ 77,926,662	\$ 106,253,549	\$ 107,200,717	\$ 947,168	0.9%
Reimbursable Fund	\$ 877,000	\$ 184,768	\$ 188,391	\$ 3,623	2.0%
Total Funds	\$ 78,803,662	\$ 106,438,317	\$ 107,389,108	\$ 950,791	0.9%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.