

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$77,950	\$67,859	\$70,648	\$2,789	4.1%
Special Fund	51,047	46,870	68,036	21,165	45.2%
Federal Fund	694	4,645	4,693	48	1.0%
Reimbursable Fund	<u>265</u>	<u>188</u>	<u>87</u>	<u>-102</u>	<u>-54.0%</u>
Total Funds	\$129,957	\$119,563	\$143,463	\$23,901	20.0%

- Special funds increase due to changes in two of five primary business assistance programs. The Maryland Economic Development Assistance Authority and Fund (MEDAAF) is budgeted to increase \$24 million, and the Enterprise Investment Fund is budgeted to decrease \$3 million, for a net increase of \$21 million.
- Underlying fiscal 2009 budget change for the Department of Business and Economic Development (DBED), absent health insurance and Other Post Employment Benefits (OPEB) funding which distorts year-to-year comparisons, is \$23 million. In other words, \$900,000 of the \$23.9 million overall budget increase is directly attributable to the OPEB liability.
- After adjusting for MEDAAF increases and the OPEB liability, the overall DBED budget decreases \$1.0 million.
- Other changes include a new \$250,000 initiative for the Chesapeake Crescent Partnership and a \$150,000 increase to the existing Greater Baltimore Alliance project.

Personnel Data

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>
Regular Positions	292.00	283.00	276.00	-7.00
Contractual FTEs	<u>36.60</u>	<u>31.70</u>	<u>32.65</u>	<u>0.95</u>
Total Personnel	328.60	314.70	308.65	-6.05

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	10.93	3.96%
Positions Vacant as of 12/31/07	38.00	13.43%

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

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- The allowance reflects the abolition of six positions in fiscal 2008.
- The agency’s vacancy rate as of December 31, 2007, was 13.43%. However, Board of Public Work’s actions taken in January 2008 resulted in 6 abolished positions, thus reducing vacant positions to 32 for a rate of 11.6%.

Analysis in Brief

Issues

Efforts to Improve Performance Data Collection and Quality Control Still Under Way: Although many agencies have challenges in reporting their Managing for Results (MFR), DBED stands out. The 2007 *Joint Chairmen’s Report* (JCR) requested from DBED a report that identifies the positions responsible for agencywide MFR quality assurance, provides written departmental MFR control procedures that satisfy the Department of Budget and Management (DBM), and assigns an internal auditor to consistently monitor performance data collection and control. **DBED should comment on the progress it has made over the last year in response to the JCR request and the expected timeline for submitting its final report to the budget committees.**

Base Realignment Activities: The Federal Office of Economic Adjustment awarded DBED a \$4 million grant to support the first phase of base realignment growth in Maryland. DBED is the lead agency in this effort coordinated by the Lieutenant Governor. **DBED should comment on the outlook for securing federal funds and leveraging private resources for Base Realignment and Closure related activities. The agency should also comment on specific goals for fiscal 2009, including strategies to foster interagency communication.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete a position in the Office of Information Technology that has been vacant for 12 months.	\$ 60,051	1.0
2. Delete a position in the Division of Small Business Assistance that has been vacant for 12 months.	60,051	1.0
3. Delete Chesapeake Crescent Partnership funds.	250,000	
4. Add language requiring the transfer of \$2 million in special funds to the Rural Broadband Assistance Fund as well as a report on the rural broadband project.		

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5.	Reduce Maryland Economic Development Assistance Authority and Fund.	15,000,000	
6.	Delete War of 1812 Bicentennial Commission funds.	100,000	
7.	Add language restricting the use of Maryland Tourism Board general funds.		
8.	Reduce Maryland Tourism Board funds.	385,868	
9.	Reduce Maryland State Arts Council funds to moderate growth.	510,000	
	Total Reductions	\$ 16,365,970	2.0

Updates

Internal Reorganization: DBED has undertaken an internal restructuring effort. Some resources were moved from the Regional Development and Business Development Divisions to the Small Business Development programs in the Financing Division. Workforce development resources, including grant programs, moved into the Finance Division, and the Military Affairs program moved into the Secretary’s Office to better respond to federal base realignment needs.

Film Production Wage Rebate Grant Program Becomes Film Production Rebate Fund, Supports Three Productions in 2008: DBED reports that nearly all of the \$4.0 million film production incentive funds for fiscal 2008 have been committed to three productions. In fiscal 2007, the program received \$6.9 million and supported five productions.

Major Grants: DBED awarded a total of \$18.3 million in grants in fiscal 2006 and \$24.6 million in 2007. \$26.5 million in awards is expected for fiscal 2008, and the fiscal 2009 allowance includes funds for \$23.9 million in awards.

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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 eight 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 Small Business Assistance:*** This division serves as DBED's primary resource for assisting Maryland's small business community. This division addresses the unique needs of small businesses, such as start-up guidance, financing, marketing, advocacy, and other strategic and technical assistance.
- ***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 all regions of the State. The teams work to promote the competitive position of new and existing businesses, continued federal investment, strategic planning, and improved business climate. Several functions support the division: In-state Business Services; 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.

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- ***Division of Economic Policy, Research, and Legislative Affairs (EPRLA):*** This division is comprised of research economists, tax policy specialists, urban planners, and public policy professionals. The division ties together the related functions of government relations, policy development, research, and economic analysis. The division maintains ongoing relationships with Maryland's General Assembly members, keeps abreast of emerging issues in economic development, and conducts economic modeling and analysis. The division also provides staff support for the Maryland Economic Development Commission.
- ***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, Military Affairs, Governor's Office of Business Advocacy, Maryland Economic Development Commission, Offices of the Attorney General, Communications Office, Equal Opportunity Office, and Internal Audits.
- ***Office of Administration and Information Technology:*** This division provides administrative and technical support services for the department.

Business Assistance Programs

DBED administers several primary business assistance programs. 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. Following are the five main assistance programs in the operating budget:

- ***Maryland Economic Development Assistance Authority and Fund (MEDAAF):*** The Maryland Economic Development Assistance Authority and Fund 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 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 (MSBDFA):*** This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172 of 2001 broadened MSBDFA'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 MSBDFA board. MSBDFA has four programs: Contract Financing Program, Long-term Guaranty Program, Surety Bond Program, and the Equity Participation Investment Program.

- ***Maryland Enterprise Investment Fund (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:*** 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. Please see Issue 1 for a complete discussion.

Fiscal 2008 Actions

Impact of Cost Containment

General funds were reduced \$2.9 million during fiscal 2008 for cost containment efforts. DBED accommodated the reduction through the abolition of 10 positions by the Board of Public Works in July 2007; however the agency was able to add three new positions through a fiscal 2008 federal grant for the Base Realignment and Closure (BRAC) activities. The cost containment also resulted in reductions to numerous programs, most notably the Maryland Tourism Board, the Nanotech-biotech Initiative Fund, and the Maryland Small Business Development Financing Authority. Six positions were abolished by the Board of Public Works in January 2008, as part of the statewide reduction required by Chapter 2 of the 2007 special session.

Governor's Proposed Budget

The fiscal 2009 allowance for DBED is \$143.5 million, a \$23.9 million (20%) increase over the 2008 working appropriation. **Exhibit 1** shows the major changes.

Personnel Expenses Increase

Expenses for regular personnel are set to increase by \$1.1 million. Savings of \$535,000 result from six abolished positions and one position transferred to the Governor's office. However, health insurance is the single largest contributing factor to increases, with a \$483,000 increase for regular personnel and \$900,000 for the State's Other Post Employment Benefits liability. After adjusting for these two items, the personnel budget actually decreases \$287,736. Finally, another \$225,000 represents one-time hiring freeze savings that were realized in fiscal 2008.

The fiscal 2009 allowance also includes \$30,000 to fund one contractual full-time equivalent position, in addition to \$70,000 for other expenses, as part of the new War of 1812 Bicentennial Commission.

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

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2008 Working Appropriation	\$67,859	\$46,870	\$4,645	\$188	\$119,563
2009 Governor’s Allowance	<u>70,648</u>	<u>68,036</u>	<u>4,693</u>	<u>87</u>	<u>143,463</u>
Amount Change	\$2,789	\$21,165	\$48	-\$102	\$23,901
Percent Change	4.1%	45.2%	1.0%	-54.0%	20.0%

Where It Goes:

Personnel Expenses

Health Insurance – reduce long-term Other Post Employment Benefits liability	\$900
Health Insurance – pay-as-you-go costs	483
Fiscal 2008 Budget Section 45 – one-time hiring freeze savings	225
Abolished positions	-535
All other personnel adjustments	22

Other Changes

Maryland Economic Development Assistance and Authority Fund.....	24,000
State Arts Council.....	936
Maryland Tourism Board	586
Chesapeake Crescent Partnership	250
Greater Baltimore Alliance.....	150
War of 1812 Bicentennial Commission.....	100
Enterprise Investment Fund.....	-3,000
Division of Business Development	-124
Partnership for Workforce Quality	-120
Other	29

Total **\$23,901**

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

Significant Increase Budgeted for Maryland Economic Development Assistance Authority and Fund

As a revolving fund, MEDAAF revenues from a particular year are not necessarily awarded the next fiscal year; they may carry over several years. Nevertheless, program activity may be compared from year to year. The fiscal 2009 allowance includes \$40.0 million in special funds for MEDAAF, which is two-and-a-half times greater than the fiscal 2008 working appropriation. The fund balance summary is shown in **Exhibit 2**.

Exhibit 2 Maryland Economic Development Assistance Authority and Fund Fiscal 2006-2009 (\$ in Thousands)

	<u>Actual</u> <u>2006</u>	<u>Actual</u> <u>2007</u>	<u>Est.</u> <u>2008</u>	<u>Est.</u> <u>2009</u>
Beginning Balance	\$30,590	\$48,872	\$49,144	\$40,848
Revenues				
General Funds	\$9,000	\$4,345	\$0	\$0
Investment Income	2,061	3,840	1,600	1,000
Interest Income	2,408	1,870	2,000	1,600
Loan Repayments	12,334	10,002	6,800	6,500
Loan Recoveries and Grant Repayments	10,345	2,364	500	500
Brownsfield Local Property Tax Contribution	0	905	750	500
Other Income	37	221	10	10
Total Revenues	\$36,185	\$23,547	\$11,660	\$10,110
Total Funds Available	\$66,775	\$72,419	\$60,804	\$50,958
Expenditures				
Encumbrances/Approval Activity – Other	\$17,240	\$21,316	\$16,000	\$40,000
Rescissions of New Approvals	-1,846	-2,569	-3,000	-3,000
Operating Expenses	647	656	859	900
Indirect Expenses	1,888	1,883	2,097	2,200
Transfers to Rural Broadband Fund	0	2,000	4,000	0
Prior Period Operating/Indirect Adjustment	-27	-12	0	0
Total Expenditures	\$17,902	\$23,274	\$19,956	\$40,100
Ending Balance	\$48,873	\$49,145	\$40,848	\$10,858

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

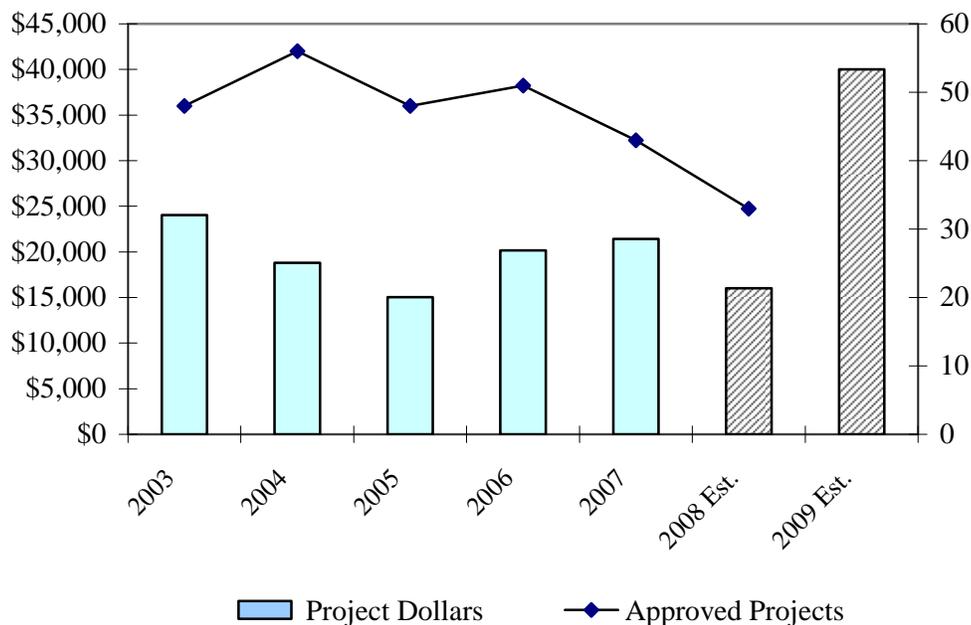
Source: Governor's Budget Books, Fiscal 2009

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The growth in MEDAAF spending does not correlate to an increase in repayment activity. Total revenues for the fund are expected to remain level in fiscal 2009. Consequently, the anticipated expenditures will spend down the fund balance. Indeed, the ending fund balance for fiscal 2009 is projected to be \$10.9 million. Therefore, this represents a surge in project activity and business assistance for this fund.

In fiscal 2008, DBED expects to approve a total of 33 projects as shown in **Exhibit 3**. Only 16 have been approved as of January 2008. In addition, 8 qualified recipients are in the pipeline for project approval, 3 proposal letters have been sent, and another 6 are in discussion. An additional 26 projects totaling \$32.4 million are currently under consideration. Pending projects are not necessarily indicative of qualified applicants, and may or may not be approved. For example, in fiscal 2007, DBED had \$32.2 million of projects under consideration for potential approval in the following year, but fiscal 2008 approvals are now estimated to be nearly half that amount.

Exhibit 3
Maryland Economic Development Assistance Authority and Fund
Project Activity
Fiscal 2003-2009
(\$ in Thousands)



Note: Does not include funds transferred to the Rural Broadband Fund. A project that is approved in one year may not be closed until a subsequent fiscal year. Value of projects may change between when they are approved and when they close. Does not include dollars for projects that have been fully or partially rescinded.

Source: Department of Business and Economic Development; Maryland Economic Development Assistance Authority and Fund annual reports; Governor’s Budget Books

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MEDAAF is DBED's largest business assistance program. Nevertheless, all five programs contribute significantly to the agency's financial assistance efforts. A summary for all five business assistance programs is included in **Exhibit 4**.

The Sunny Day Fund beginning fund balance for fiscal 2008 was \$6.7 million. DBED expects to see \$3.9 million in repayments of principal and interest during the year. The ending fund balance is expected to be \$4.3 million after operating expenses and a \$5.5 million commitment to Morgan Stanley & Company to expand its activities in Baltimore City. The disbursements include a \$1.5 million prior commitment to the company, and an additional \$4.0 million which was approved by the Legislative Policy Committee in January 2008 to complete the last several phases of the effort. The investment is expected to result in 900 new jobs by fiscal 2018.

Other Changes Include Mandated Increases and New Multi-state Program

The DBED allowance includes a \$936,000 increase for the Maryland State Arts Council and a \$586,000 increase for the Maryland Tourism Board; in both cases the amount exceeds the statutory requirement.

The fiscal 2009 allowance also establishes the Chesapeake Crescent Partnership, a new \$250,000 program within the Division of Business Development. This is a multi-state marketing and promotion initiative with Virginia and the District of Columbia to create and implement an action agenda to make the Chesapeake Crescent region a global economic powerhouse. The State would contribute \$250,000 per year for two years.

Finally, a \$150,000 increase within the Division of Regional Development would enhance the grant for the Greater Baltimore Alliance.

Exhibit 4
Department of Business and Economic Development Business Assistance Summary
Fiscal 2009
(\$ in Thousands)

	<u>MEDAAF</u>	<u>MSBDFA</u>	<u>Maryland Enterprise Investment/Challenge Program and Fund</u>	<u>Maryland Economic Adjustment Fund</u>	<u>Economic Development Opportunities Fund (Sunny Day)¹</u>
Beginning Balance	\$40,848	\$4,095	\$3,080	\$1,309	\$4,300
Revenue	10,110	18,153	2,200	610	
Total Funds Available	\$50,958	\$22,248	\$5,280	\$1,919	
Total Expenditures/ Encumbrances	\$40,100	\$18,330	\$3,258	\$1,508	
Ending Balance	\$10,858	\$3,918	\$2,022	\$411	

MEDAAF: Maryland Economic Development Assistance Authority and Fund

MSBDFA: Maryland Small Business Development Financing Authority

¹Sunny Day Funds are special funds and must be approved by the Legislative Policy Committee before they are transferred from the State Reserve Fund.

Note: The Military Reservists and Service Related No-Interest Loan Program included a fiscal 2008 working appropriation of \$1.0 million and is level funded in fiscal 2009.

Source: Governor's Budget Books, Fiscal 2009

Issues

1. Efforts to Improve Performance Data Collection and Quality Control Still Under Way

A fiscal 2003 review of DBED's MFR reporting procedures by the Office of Legislative Audits (OLA) found the agency's data collection and control procedures to be inadequate. In response, the budget committees adopted narrative during the 2006 legislative session requesting that DBED report to the Office of Legislative Audits 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. For this report, OLA did not conduct an audit; its conclusions were based on observation and inquiry.

The 2007 OLA conclusions stated that DBED had taken significant steps to address data collection challenges by instituting a new computer system. DBED also made progress in establishing processes and controls to ensure data reliability. However, OLA was still concerned that the responsibility for data reliability rested with the various divisions, and no centralized process existed to verify that the controls were functioning as intended. OLA's findings did not necessarily indicate that the performance data were unreliable.

In response to the OLA conclusions, the 2007 *Joint Chairmen's Report* (JCR) requested from DBED a report that identifies the positions responsible for agencywide MFR quality assurance, provides written departmental MFR control procedures that satisfy the Department of Budget and Management (DBM), and assigns an internal auditor to consistently monitor performance data collection and control. The budget committees further requested the report contain a letter from DBM certifying that MFR control procedures are satisfactory and added language restricting \$1 million in general funds to be released upon receipt of the report.

In October 2007, DBED submitted its report to DBM addressing the issues requested by the 2007 JCR. After thorough review, DBM determined that the agency's control procedures were inadequate and, therefore, did not fulfill the requirements set forth by the budget committees. This prompted discussions between the two agencies, and DBED resubmitted edited control procedures in December 2007. The report is currently under review, and DBM has not yet issued a letter certifying the results are satisfactory. Without this letter, DBED cannot submit its report to the budget committees. However, DBED expresses confidence that DBM will certify their actions.

It should be noted that changes prompted by the JCR and discussions with DBM have already been implemented by DBED. Positions have been identified for quality assurance and internal auditing, and the MFR control procedures have been modified.

DBED should comment on the progress it has made over the last year in response to the 2007 *Joint Chairmen's Report* and the expected timeline for submitting its final report to the budget committees.

2. Base Realignment Activities

The Base Realignment and Closure changes announced by the U.S. Department of Defense in May 2005 provide both opportunities and challenges that the State must address. DBED is the lead agency in preparing for BRAC's impact on Maryland residents and businesses. In particular, DBED is charged with coordinating interagency communication and identifying and responding to the needs of areas businesses.

Under the coordination of the Lieutenant Governor's BRAC Subcabinet, which began convening in fiscal 2007, DBED has been working closely with the Department of Transportation, the Department of the Environment, the Department of Housing and Community Development, the Maryland State Department of Education, and the Department of Planning to respond to local and regional changes and to attract and promote business. Interagency cooperation is considered critical to successful growth.

According to the subcabinet's BRAC Action Plan, presented on November 29, 2007, the State may experience an influx of up to 60,000 direct and indirect jobs over the next decade. This includes 15,000 direct federal government jobs, 23,000 federal contractors, and 7,300 support positions. As a lead agency in the planning process, the report outlined strategies that will allow DBED to leverage local, regional, and private resources needed to accommodate this growth. The specific areas of focus are:

- **Workforce Development**
 - Schedule interaction with appropriate military leadership.
 - Coordinate BRAC marketing and promotion efforts for State agencies.
 - Manage BRAC media and public relations outreach.
- **Business Development**
 - Provide county partners with technical and financial assistance in efforts to develop and market new business sites. Provide staff to support counties and assist small and minority-owned businesses looking to locate or expand near Fort Meade and Aberdeen Proving Grounds.
 - Finance a BRAC small business opportunity study to better understand the volume and type of small business opportunities.
 - Work closely with departments of Planning and Transportation to target State intervention and investment. DBED will explore the creation of targeted investment zones will connect BRAC-related personnel moves with redevelopment.

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- The Maryland Technology Development Corporation has authorized \$375,000 for entrepreneurs transferring or commercializing technology from BRAC-related defense organizations.

The Administration has proposed bills (SB 206/HB 366 of 2008) to establish BRAC zones and other targeted incentives, which may impact the geographic focus of such efforts.

In fiscal 2007, DBED received \$800,000 from the Department of Labor, Licensing, and Regulation to complete four studies related to the BRAC process. In fiscal 2008, the Federal Office of Economic Adjustment awarded DBED a \$4 million appropriation to support the first phase of base realignment growth in Maryland. The funds were allocated as follows:

- \$1,818,750 to the Department of the Environment for projects related to water and wastewater and environmental infrastructure studies;
- \$1,595,026 to the Department of Transportation for a BRAC coordinator position and to fund traffic analyses;
- \$95,026 to the Department of Planning for a BRAC coordinator position, including fringe benefits; and
- \$490,563 to the Department of Business and Economic Development to cover salaries for three new positions and other operating costs to respond to planning and implementation.

In fiscal 2009, DBED's role will be to coordinate new contractual activities and seek additional opportunities for federal funds on behalf of other State agencies. The fiscal 2009 allowance includes \$3.9 million in federal funds for BRAC-related activities. The agency will apply for these funds on behalf of other State agencies. In conjunction with the BRAC Subcabinet, DBED will continue to work with federal, State, and local entities to monitor changes and manage communication.

DBED should comment on the outlook for securing the \$4.0 million budgeted federal funds and leveraging private resources for BRAC-related activities. The agency should also comment on specific goals for fiscal 2009, including strategies to foster interagency communication.

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete a position that has been vacant for 12 months. Position #031003, Administrator V, is in the Office of Information Technology.	\$ 60,051	GF	1.0
2. Delete a position that has been vacant for 12 months. Position #045528 is in the Division of Small Business Assistance.	60,051	GF	1.0
3. Delete Chesapeake Crescent Partnership funds. The State should participate in this initiative within existing resources. The need for additional funds has not been justified.	250,000	GF	
4. Add the following language to the special fund appropriation:			

, provided that \$2,000,000 of this appropriation is authorized to be transferred to the Rural Broadband Assistance Fund. This appropriation may not be expended until the Department of Business and Economic Development provides a report on the rural broadband project, including the status of all project phases, the use of State funds received, potential sources of private funding, and estimates for project completion.

Explanation: The Department of Business and Economic Development (DBED) and the Rural Broadband Cooperative have not provided a report on the status of the rural broadband project and the use of funds received since the Rural Broadband Fund was established. Furthermore, no additional funds are allocated for this purpose in the *Capital Improvement Plan* beyond fiscal 2009, although the project is not nearing completion. A report of this nature would provide the budget committees with detailed information on the status of these funds and progress on the initiative.

Information Request	Authors	Due Date
Report on project status and expenditures	DBED; Rural Broadband Cooperative	45 days before release of funds

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	<u>Amount Reduction</u>	<u>Position Reduction</u>
5. Reduce Maryland Economic Development Assistance Authority and Fund. This reduction will allow for \$25 million in program activity, a significant increase over recent years. Limiting spending authority will also increase the fund's ending balance, further deferring any need for general funds.	15,000,000	SF
6. Delete War of 1812 Bicentennial Commission funds.	100,000	GF
7. Add the following language to the general fund appropriation: <u>.provided that \$100,000 of this appropriation may only be used to support the War of 1812 Bicentennial Commission.</u>		
Explanation: The fiscal 2009 allowance includes \$100,000 in new funding for a 1.0 contractual FTE and operational expenses for the War of 1812 Bicentennial Commission. However, budget growth within the Maryland Tourism Board would be sufficient to cover these expenses.		
8. Reduce Maryland Tourism Board funds. This reduction would allow the budget to grow at a more modest rate, while still exceeding the statutorily mandated minimum allowance of \$6.0 million.	385,868	GF
9. Reduce Maryland State Arts Council funds. The allowance increase general funds by \$1.28 million, an increase of 8.4% over the fiscal 2008 working appropriation. Although the statutory formula required funding to be increased by the growth in general fund revenues (8.1%), the level of growth is exaggerated due to the actions taken during the 2007 special session. Absent those actions, general funds are growing 5.1%, so an increase of that level is reasonable and appropriate.	510,000	GF
Total Reductions	\$ 16,365,970	2.0
Total General Fund Reductions	\$ 1,365,970	
Total Special Fund Reductions	\$ 15,000,000	

Updates

1. Internal Reorganization

DBED has undertaken an internal restructuring effort. Some resources were moved from the Regional Development and Business Development Divisions to the Division of Small Business Assistance. Workforce development resources, including grant programs, moved into the Finance Division, and the Military Affairs program moved from the Division of Regional Development into the Secretary's Office to better respond to federal base realignment needs.

A fiscal 2008 budget amendment allowed resources to be realigned throughout the agency to reflect the new Administration's priorities and spending plans. Among the position and funding transfers was an increase to the Office of Military Facilities and Federal Affairs to support BRAC activities, as well as an increase to the Division of Small Business Assistance.

2. Film Production Wage Rebate Grant Program Becomes Film Production Rebate Fund, Supports Three Productions in 2008

The Film Production Wage Rebate Grant Program was established in fiscal 2005 to provide qualified productions with a rebate of 50% of the first \$25,000 in wages paid per employee earning less than \$1 million. In fiscal 2006, the Film Wage Rebate Grant Program received \$4.0 million and supported three productions. In fiscal 2007, it received \$6.9 million and supported five productions.

In fiscal 2008, the Film Production Wage Rebate Grant Program was replaced with the Film Production Rebate Fund. The program now provides qualified film productions in the State with a rebate in an amount up to 25% of the total direct costs of production while filming on location for qualifying film and television productions. The fund received a \$4.0 million appropriation in fiscal 2008, and DBED reports that nearly all funds have been committed to three feature films: \$575,000 for "Step Up 2", \$400,000 for "Bumper", and \$3,000,000 for "Ice at the Bottom of the World." The program is level-funded in fiscal 2009 at \$4.0 million.

3. Major Grants

DBED awarded a total of \$24.6 million in grants in fiscal 2007, as shown in **Exhibit 6**. The exhibit also shows that \$26.5 million in awards is expected for fiscal 2008, and the fiscal 2009 allowance includes funds for \$23.9 million in awards.

Exhibit 6
Department of Business and Economic Development
Summary of Major Grants

	<u>Actual Fiscal 2007</u>	<u>Budget Appropriation Fiscal 2008</u>	<u>Budget Allowance Fiscal 2009</u>
Office of the Secretary			
Military/Federal and BRAC Assistance			
Southern Maryland Navy Alliance	\$50,000	\$50,000	\$50,000
Army Alliance	46,000	50,000	50,000
Montgomery County – White Oak	24,000	26,000	10,000
Fort Meade Alliance	25,000	50,000	50,000
Fort Dietrick Alliance	20,000	20,000	20,000
Maryland Maritime Alliance	25,000	27,000	27,000
Town of Indian Head	50,000	25,000	25,000
Andrews Air Force Base, Business Roundtable of Prince George’s County	0	25,000	25,000
Army Alliance Statewide BRAC Support	75,000	29,000	29,000
Total – Military/Federal and BRAC Assistance (GF)	315,000	302,000	286,000
Federal Funds – Office of Economic Adjustment			
MD Dept. of the Environment	0	1,818,750	0
MD Dept. of Planning	-0	95,026	0
MD Dept. of Transportation	-0	1,595,026	0
Total – Office of the Secretary	\$315,000	\$3,810,802	\$286,000
Division of Small Business Assistance			
University of Maryland Department of Budget and Management			
Strategic Assistance Consulting Fund – Booth Small Business Development Center/University of Maryland – PTAP	\$250,000	\$250,000	\$250,000
University of Maryland – SBDC	150,000	135,000	135,000
Micro Enterprise Council of Maryland	85,400	85,400	85,400
	50,000	50,000	50,000
Total – Division of Small Business Assistance	\$535,400	\$520,400	\$520,400
Division of Business Development			
Maryland Israel Development Corp.	\$153,658	\$100,000	\$100,000
World Trade Center Institute (WTCI)	140,400	231,500	222,300
Export MD – Small Business Foreign Trade Grants	100,090	100,000	100,000
Chesapeake Crescent			250,000
Nano-Biotechnology Assistance via UMCP	2,500,000	2,400,000	2,400,000
Total – Division of Business Development	\$2,894,148	\$2,831,500	\$3,072,300

T00 – Department of Business and Economic Development

	<u>Actual Fiscal 2007</u>	<u>Budget Appropriation Fiscal 2008</u>	<u>Budget Allowance Fiscal 2009</u>
Division of Financing Programs			
Workforce Development and Coordination			
Maryland Industrial Training Program	\$2,303,911	\$2,030,958	\$2,030,958
Partnership for Workforce Quality	1,237,954	1,007,954	887,954
Total – Division of Financing Programs	3,541,865	3,038,912	2,918,912
Division of Tourism, Film, and the Arts			
Downtown Partnership	\$100,000	\$100,000	\$100,000
Capital Region USA, Inc.	355,000	250,000	250,000
Maryland Tourism Council	35,000	0	0
Preakness Celebration Inc.	30,000	0	0
Ocean Race Chesapeake	100,000	0	0
Baltimore Symphony Orchestra	750,000	0	0
Baltimore Opera Company	375,000	0	0
Creative Alliance	225,000	0	0
National Philharmonic	200,000	0	0
Annapolis Symphony Orchestra	100,000	0	0
Morgan State University	65,000	0	0
Maryland State Arts Council Grants			
Baltimore Symphony Orchestra	2,012,361	2,315,764	
The Walters Art Gallery	967,720	948,309	
The Baltimore Museum of Art	978,182	880,139	
Baltimore Clayworks	90,172	86,897	
Center Stage Associates, Inc.	585,876	567,785	
Baltimore Opera Company, Inc.	431,349	436,992	
Maryland-National Capital Park and Planning	245,974	257,924	
American Visionary Art Museum, Inc.	173,830	184,666	
Olney Theater Center for the Arts	184,642	225,000	
Round House Theater, Inc.	245,096	281,107	
Maryland Hall for the Creative Arts	85,000	95,000	
Strathmore Hall Arts Center	371,780	468,407	
Maryland Symphony Orchestra	89,036	86,389	
Jewish Community Center of Washington	65,000	64,489	
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	328,273	343,985	
Liz Lerman Dance Exchange	94,449	102,597	
Baltimore's Festival of the Arts, Inc.	60,361	62,605	
Jewish Community Center of Balto./Gordon Ctr	60,000	55,000	
Maryland Historical Society	60,000	38,000	
University of Maryland/Clarice Smith Perf Arts Ctr at MD	298,190	330,000	

T00 – Department of Business and Economic Development

	Actual	Budget	Budget
	Fiscal 2007	Appropriation	Allowance
	Fiscal 2007	Fiscal 2008	Fiscal 2009
Nat'l. Chamber Orch. Society, Inc./Nat'l Philharmonic	55,000	75,000	
Everyman Theatre Inc.	89,735	94,698	
Academy Art Museum	69,871	71,823	
Annapolis Symphony Orchestra	66,609	77,124	
Class Acts Arts, Inc.	70,258	80,000	
Howard Community College Education	54,090	49,591	
Washington County Museum of Fine Arts	56,101	60,024	
The Writer's Center	57,888	54,966	
Avalon Foundation Inc.	50,000	60,000	
The Ward Museum of Wildfowl Art	47,320	60,024	
Young Audiences of Maryland Inc.	44,000	55,551	
Grants to All Other Arts Organizations	2,145,785	2,700,621	
Subtotal – Grants to Arts Organizations*	10,233,948	11,270,477	11,962,377
Community Arts Development	2,347,857	2,388,807	2,399,717
Artists in Education	701,829	768,000	768,000
Individual Artists and Other Programs	388,258	390,000	410,000
Total – Maryland State Arts Council	\$13,671,892	\$14,817,284	\$15,540,094
Total – Division of Tourism, Film, and the Arts	\$16,078,392	\$15,167,284	\$15,890,094
Division of Regional Development			
Community Development			
Appalachian Regional Commission	\$11,599	\$15,269	\$15,269
Technical Assistance Strategic Plan	0	10,500	15,500
Tri-County Council of Western Maryland	65,316	140,000	140,000
Tri-County Council of Southern Maryland	65,316	140,000	140,000
Mid-Shore Regional Council	65,316	140,000	140,000
Tri-County Council Lower Shore	65,316	140,000	140,000
Upper Shore Regional Council	65,316	140,000	140,000
University of Baltimore – Entrep. Opport.	50,000	0	50,000
Baltimore Ravens – Army v. Navy Game	300,000	0	0
MAERDA	40,650	0	0
Econ. Alliance of Greater Baltimore	50,000	50,000	50,000
University of Maryland – MTES	45,000	45,000	45,000
Greater Washington Initiative	0	15,000	15,000
Technology Development			
Technology Council of Maryland	140,000	133,000	133,000
Greater Baltimore Technology Council	140,000	133,000	133,000
Lower Shore Broadband	75,000	0	0
Workforce Development			
Governor's Workforce Investment Board	24,510	23,494	23,494

T00 – Department of Business and Economic Development

	<u>Actual Fiscal 2007</u>	<u>Budget Appropriation Fiscal 2008</u>	<u>Budget Allowance Fiscal 2009</u>
Total – Division of Regional Development	\$1,203,339	\$1,125,263	\$1,180,263
Total Department of Business and Economic Development	\$24,568,144	\$26,494,161	\$23,867,969

*The distribution of Maryland State Arts Council Grants to arts organizations for fiscal 2009 is not known at this time.

BRAC: Base Realignment and Closure

MAERDA: Maryland Agricultural and Educational Rural Development Act

MTES: Maryland Technology Extension Service

PTAP: Procurement Technical Assistance Program

SBDC: Small Business Development Center

UMCP: University of Maryland, College Park

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 2007					
Legislative Appropriation	\$88,766	\$51,460	\$696	\$185	\$141,107
Deficiency Appropriation	0	0	200	0	200
Budget Amendments	-10,697	10,841	0	121	265
Reversions and Cancellations	-118	-11,254	-202	-41	-11,615
Actual Expenditures	\$77,951	\$51,047	\$694	\$265	\$129,957
Fiscal 2008					
Legislative Appropriation	\$70,478	\$50,777	\$645	\$188	\$122,088
Cost Containment	-2,928	0	0	0	-2,928
Budget Amendments	309	-3,907	3,999	0	401
Working Appropriation	\$67,859	\$46,870	\$4,644	\$188	\$119,561

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

Fiscal 2007

DBED finished fiscal 2007 at \$11.1 million below its legislative appropriation.

General Funds: The actual fiscal 2007 expenditure was a net \$10.8 million below the legislative appropriation. General fund budget amendments include a \$263,592 increase to support the employee cost-of-living adjustments (COLA). Budget amendment decreases include a \$3,307 transfer to DBM to support a salary study for various State agencies, a \$302,561 reduction for the cost containment initiative, and \$10.7 million in transfers from MEDAF to various State agencies.

Special Funds: Special funds increased \$12.8 million primarily due to Sunny Day fund budget amendments, and a small portion (\$72,498) supported the employee COLA. A total of \$2.0 million was transferred from MEDAAF to the Rural Broadband fund, \$7.3 of the \$11.3 million cancellation came from the Maryland Small Business Development Financing Authority, and \$2.7 million was from the Enterprise Investment Fund.

Federal Funds: A fiscal 2007 \$200,000 deficiency appropriation provided federal funds for the Maryland State Arts Council. However, these funds were reverted as DBED did not have eligible expenses.

Fiscal 2008

General funds have increased \$309,196 in fiscal 2008 to support the employee COLA, and they have decreased \$2.9 million for cost containment efforts that resulted in six abolished positions. Special funds have decreased \$3.9 million due to a \$4.0 million transfer from MEDAAF to the Rural Broadband fund and increased slightly (\$93,432) to support the employee COLA. Finally, federal funds increased \$4.0 million for BRAC-related activities.

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

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08-FY09 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	292.00	283.00	276.00	-7.00	-2.5%
02 Contractual	36.60	31.70	32.65	0.95	3.0%
Total Positions	328.60	314.70	308.65	-6.05	-1.9%
Objects					
01 Salaries and Wages	\$ 22,848,629	\$ 23,051,505	\$ 24,146,769	\$ 1,095,264	4.8%
02 Technical and Spec. Fees	1,633,222	1,297,601	1,428,921	131,320	10.1%
03 Communication	851,862	914,366	1,081,665	167,299	18.3%
04 Travel	725,946	712,962	685,154	-27,808	-3.9%
06 Fuel and Utilities	260,300	264,851	265,932	1,081	0.4%
07 Motor Vehicles	368,704	395,681	322,116	-73,565	-18.6%
08 Contractual Services	10,687,570	11,596,572	12,211,056	614,484	5.3%
09 Supplies and Materials	271,567	316,395	305,149	-11,246	-3.6%
10 Equip. – Replacement	222,030	17,748	16,548	-1,200	-6.8%
11 Equip. – Additional	53,622	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	61,341,640	40,910,726	41,987,587	1,076,861	2.6%
13 Fixed Charges	2,165,225	2,178,644	2,106,850	-71,794	-3.3%
14 Land and Structures	28,526,311	37,905,750	58,905,750	21,000,000	55.4%
Total Objects	\$ 129,956,628	\$ 119,562,801	\$ 143,463,497	\$ 23,900,696	20.0%
Funds					
01 General Fund	\$ 77,950,374	\$ 67,859,373	\$ 70,647,888	\$ 2,788,515	4.1%
03 Special Fund	51,047,265	46,870,432	68,035,909	21,165,477	45.2%
05 Federal Fund	693,974	4,644,605	4,693,102	48,497	1.0%
09 Reimbursable Fund	265,015	188,391	86,598	-101,793	-54.0%
Total Funds	\$ 129,956,628	\$ 119,562,801	\$ 143,463,497	\$ 23,900,696	20.0%

Note: The fiscal 2008 appropriation does not include deficiencies.

**Fiscal Summary
Department of Business and Economic Development**

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08 - FY09 % Change</u>
0A Department of Business and Economic Development	\$ 4,097,381	\$ 8,063,289	\$ 8,456,102	\$ 392,813	4.9%
0B Division of Administration	4,561,201	4,889,968	5,165,883	275,915	5.6%
0C Division of Economic Policy, Research, and Legislative Affairs	1,255,022	1,199,076	1,131,167	-67,909	-5.7%
0D Division of Small Business Assistance	1,767,546	2,291,224	2,258,294	-32,930	-1.4%
0E Division of Marketing	16,912,301	16,064,515	16,337,938	273,423	1.7%
0F Division of Financial Assistance Programs	58,518,584	49,320,074	70,459,931	21,139,857	42.9%
0G Division of Tourism And Promotion	37,950,733	33,493,470	35,566,446	2,072,976	6.2%
0I Division of Regional Development	4,893,860	4,241,185	4,087,736	-153,449	-3.6%
Total Expenditures	\$ 129,956,628	\$ 119,562,801	\$ 143,463,497	\$ 23,900,696	20.0%
General Fund	\$ 77,950,374	\$ 67,859,373	\$ 70,647,888	\$ 2,788,515	4.1%
Special Fund	51,047,265	46,870,432	68,035,909	21,165,477	45.2%
Federal Fund	693,974	4,644,605	4,693,102	48,497	1.0%
Total Appropriations	\$ 129,691,613	\$ 119,374,410	\$ 143,376,899	\$ 24,002,489	20.1%
Reimbursable Fund	\$ 265,015	\$ 188,391	\$ 86,598	-\$ 101,793	-54.0%
Total Funds	\$ 129,956,628	\$ 119,562,801	\$ 143,463,497	\$ 23,900,696	20.0%

Note: The fiscal 2008 appropriation does not include deficiencies.