

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

| | <u>FY 08</u> <u>Actual</u> | <u>FY 09</u> <u>Working</u> | <u>FY 10</u> <u>Allowance</u> | <u>FY 09-10</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|--------------------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| General Fund | \$67,644 | \$59,637 | \$62,286 | \$2,649 | 4.4% |
| Contingent & Back of Bill Reductions | 0 | 0 | -8,080 | -8,080 | |
| Adjusted General Fund | \$67,644 | \$59,637 | \$54,206 | -\$5,431 | -9.1% |
| Special Fund | 41,693 | 57,800 | 49,508 | -8,292 | -14.3% |
| Contingent & Back of Bill Reductions | 0 | 0 | -25 | -25 | |
| Adjusted Special Fund | \$41,693 | \$57,800 | \$49,483 | -\$8,317 | -14.4% |
| Federal Fund | 4,458 | 4,679 | 1,580 | -3,099 | -66.2% |
| Contingent & Back of Bill Reductions | 0 | 0 | -2 | -2 | |
| Adjusted Federal Fund | \$4,458 | \$4,679 | \$1,578 | -\$3,101 | -66.3% |
| Reimbursable Fund | 238 | 87 | 100 | 13 | 15.5% |
| Adjusted Reimbursable Fund | \$238 | \$87 | \$100 | \$13 | 14.9% |
| Adjusted Grand Total | \$114,033 | \$122,203 | \$105,367 | -\$16,836 | -13.8% |

- After contingent and across-the-board reductions, the fiscal 2010 allowance is \$105.4 million; a decrease of \$16.8 million, or 13.8%.
- Absent contingent reductions, general funds increase by about \$2.6 million, largely due to statutory increases for the Maryland Tourism Board and the Maryland State Arts Council. However, the Budget Reconciliation and Financing Act of 2009 contains provisions to scale back the statutory increases.
- Special funds decrease primarily due to changes in two of the five primary business assistance programs. The Maryland Economic Development Assistance Authority and Fund (MEDAAF) declines by \$6.45 million, and the Maryland Economic Adjustment Fund declines by \$1.0 million.

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

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- Federal funds decline in the allowance due to a one-time grant in fiscal 2009 for activities related to Base Realignment and Closure.

Personnel Data

| | <u>FY 08</u> <u>Actual</u> | <u>FY 09</u> <u>Working</u> | <u>FY 10</u> <u>Allowance</u> | <u>FY 09-10</u> <u>Change</u> |
|------------------------|---|--|--|--|
| Regular Positions | 276.00 | 261.00 | 258.00 | -3.00 |
| Contractual FTEs | <u>32.65</u> | <u>34.15</u> | <u>27.60</u> | <u>-6.55</u> |
| Total Personnel | 308.65 | 295.15 | 285.60 | -9.55 |

Vacancy Data: Regular Positions

| | | |
|---|-------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | 10.02 | 3.84% |
| Positions and Percentage Vacant as of 12/31/08 | 6.00 | 2.30% |

- Absent across-the-board reductions, the department's staffing level remains constant at 261 regular positions. Contractual full-time equivalents decline by 6.55 in the fiscal 2010 allowance.
- Across-the-board reductions eliminate 3 positions as part of the abolition of 1,000 vacant positions per Section 18 of the fiscal 2010 budget bill.

Analysis in Brief

Issues

Maryland Bio 2020 Initiative: In June 2008, the Administration announced the Maryland Bio 2020 initiative as a 20-year plan that calls for various investments designed to expand the State’s role in life sciences and related fields. The department’s new Biotechnology Center is one component of the plan. However, the current fiscal condition of the State has scaled down many other early plans for the initiative. **The Department of Legislative Service (DLS) recommends that the department comment on the Maryland Bio 2020 initiative, the Maryland Biotechnology Center, and how the State may leverage private investments in light of current economic conditions.**

Effort to Measure Performance Evolves Under Managing for Results and StateStat: The department has long struggled with measuring the performance of the programs under the Managing for Results initiative. Issues of data reliability and accuracy were compounded by the adoption of measures that did not reflect the mission of the department. **DLS recommends that the department comment on its progress in establishing useful and accurate performance measures. DLS further recommends adding budget bill language restricting the appropriation of the Maryland Biotechnology Investment Tax Credit program until the department submits a report on meaningful performance measures that will be included in future budget submissions.**

Recommended Actions

| | <u>Funds</u> | <u>Positions</u> |
|--|--------------|------------------|
| 1. Delete the technology policy advisor position within the Office of the Secretary. | \$ 142,694 | 1.0 |
| 2. Reduce funds for grants to military alliances. | 41,300 | |
| 3. Delete funds for a grant to the University System of Maryland under the Nano-Biotechnology Initiative Fund. | 1,000,000 | |
| 4. Delete one position within the Office of Business and Legislative Relations. | 115,000 | 1.0 |
| 5. Delete one position within the Office of Policy, Planning, and Research. | 115,000 | 1.0 |
| 6. Reduce funds for grants to regional and private economic development councils. | 216,080 | |

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| | | | |
|-----|---|----------------------|------------|
| 7. | Add language restricting the use of the Maryland Biotechnology Investment Tax Credit Reserve Fund. | | |
| 8. | Strike contingent reduction language for the Maryland Tourism Board. | | |
| 9. | Reduce funds under the Maryland Tourism Board. | 1,100,000 | |
| 10. | Delete funds for the sponsorship of local film festivals. | 54,900 | |
| 11. | Strike contingent reduction to the Maryland State Arts Council. | | |
| 12. | Reduce funds for the Maryland State Arts Council. | 6,000,000 | |
| 13. | Delete funds for the Film Production Rebate Program. | 2,000,000 | |
| 14. | Delete language in the Executive Pay Plan schedule to reflect the deletion of the technology policy advisor position. | | |
| | Total Reductions | \$ 10,784,974 | 3.0 |

Updates

Rural Broadband Report: The fiscal 2009 operating budget bill included language that authorizes the use of \$2 million of MEDAAF special fund appropriations as a source of State assistance for the Rural Broadband project. On December 6, 2008, the Department of Business and Economic Development and the Maryland Broadband Cooperative submitted the required report. According to the report, the Maryland Broadband Cooperative, recipient of the State funds, has completed over 125 miles of fiber backbone, providing high-speed Internet access to many underserved communities of rural Maryland.

Base Realignment and Closure: The department is engaged in a number of activities to prepare for the expected influx of new residents and new businesses that will result from base realignment and closure. The department's Office of Military and Federal Affairs is instrumental in many of these activities.

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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.

In 2008, at the request of the Governor, the department conducted a comprehensive 90-day review of its organizational structure and operations. The charge was to identify operational efficiencies, increase service delivery, improve program performance, and ensure accountability.

As a result of the review, the department streamlined its divisions from seven to four including the Office of the Secretary and the divisions of Economic Development; Marketing and Business Development; and Tourism, Film, and the Arts. The department's mission and goals are supported by these four newly realigned divisions:

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

- ***Division of Tourism, Film, and the Arts:*** This division's mission is to strengthen the State's quality of life and encourage economic development by investing in and promoting Maryland's unique historic, cultural, and natural assets.

Business Assistance Programs

DBED administers several primary business assistance programs. These programs provide resources upon which the Division of Economic Development draws when 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 those in growth industries that are locating or expanding in priority funding areas, are targeted. Funds may be used for property acquisition, construction, or renovation of buildings including tenant improvements and capital equipment.
- ***Maryland Small Business Development Financing Authority (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:*** This program provides capital through equity purchases for start-up companies that are developing innovative technologies. Investments are limited to 25% of the company's total equity and require a three-to-one outside investor match. Individual investments, except those made in venture capital limited liability companies, are limited to \$500,000 and may not exceed 15 years in duration.
- ***Maryland Economic Adjustment Fund:*** This program originally was established to provide loans to new or existing companies in communities suffering from 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, conditional loans and grants, and tax credits.

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

Performance Analysis: Managing for Results

For several years, the Department of Legislative Services (DLS) has not analyzed DBED's Managing for Results (MFR) data because of concerns about data collection and control procedures. Because of these concerns, it is difficult to draw reliable conclusions from the data. The recent reorganization of the department and the subsequent realignment of performance measures add to this difficulty. Please see Issue 2 for a complete discussion.

Fiscal 2009 Actions

Impact of Cost Containment

Over two rounds of fiscal 2009 cost containment, the department relinquished over \$10.6 million, almost exclusively in general funds. This includes the elimination of 15 positions, totaling \$990,050 in savings. The positions include 4 within the Office of the Secretary; 4 within the Division of Business and Marketing; 6 within the Division of Economic Development; and 1 within the Division of Tourism, Film, and the Arts.

Much of the cost containment effort focused on grants to various organizations. Grant programs relinquished over \$4.5 million. Reduced programs include the Nano-Biotechnology Initiative, the Maryland Industrial Training Program, and the Partnership for Workforce Quality. Entities that received reduced funds include Small Business Development Centers, Capital Region USA and Downtown Partnership, regional and private economic development councils, military alliances, and nonprofit arts organizations.

The department made several administrative reductions to aid in cost containment, including reducing travel and advertising expenses. These efforts resulted in almost \$2.2 million in savings, the vast majority affecting the Maryland Tourism Development Board. An additional \$700,000 was reduced from the Military Reservists No-Interest Loan program due to less than expected interest in the program.

The remaining savings are attributable to a hiring freeze and statewide reductions to health insurance and retiree contributions. Estimated, but unrealized, savings from the employee furlough total approximately \$233,000 in general funds.

Proposed Budget

After contingent and across-the-board reductions, the department's fiscal 2010 allowance totals \$105.4 million; this is a decline of \$16.8 million, or 13.8%, as shown in **Exhibit 1**.

Impact of Cost Containment

Contingent across-the-board reductions affect the department's budget to reduce 3 positions and \$194,905 in general funds as part of the abolition of 1,000 positions; \$155,332 in general funds to reduce contractual full-time equivalents; \$109,216 in general, special, and federal funds to eliminate the deferred compensation match; and \$548,637 in general funds in the expectation of savings in contracted services based on a favorable bidding climate. Additional personnel reductions may occur in the department as part of a statewide \$30 million unallocated across-the-board reduction.

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

| How Much It Grows: | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------|----------------------------|----------------------------|----------------------------|---------------------------|---------------------|
| 2009 Working Appropriation | \$59,637 | \$57,800 | \$4,679 | \$87 | \$122,202 |
| 2010 Allowance | <u>62,286</u> | <u>49,508</u> | <u>1,580</u> | 100 | <u>113,474</u> |
| Amount Change | \$2,649 | -\$8,292 | -\$3,099 | \$13 | -\$8,729 |
| Percent Change | 4.4% | -14.3% | -66.2% | 15.5% | -7.1% |
| Contingent Reduction | -\$8,080 | -\$25 | -\$2 | \$0 | -\$8,108 |
| Adjusted Change | -\$5,431 | -\$8,317 | -\$3,101 | \$13 | -\$16,837 |
| Adjusted Percent Change | -9.1% | -14.4% | -66.3% | 15.5% | -13.8% |

Where It Goes:

Personnel Expenses

| | |
|--|--------|
| Abolished/transferred positions (Back of the Bill) | -\$195 |
| Increments and other compensation | 319 |
| Employee and retiree health insurance | 380 |
| Retiree benefits | 62 |
| Workers' compensation premium assessment | -51 |
| Turnover adjustments | 268 |
| Other fringe benefit adjustments | 7 |

Other Changes

| | |
|--|--------|
| Biotechnology Center | 1,658 |
| Maryland Tourism Board | 1,150 |
| Maryland State Arts Council | 2,448 |
| Across-the-board reductions | -704 |
| Contingent reductions to Tourism Board and Arts Council | -7,100 |
| Film Production Rebate Program | -500 |
| Maryland Economic Development Assistance and Authority Fund..... | -6,450 |
| Maryland Economic Adjustment Fund..... | -1,000 |
| Maryland Industrial Training Program..... | -391 |
| Coordinating Emerging Nanobiotechnology Research Program..... | -3,000 |
| Decline in Defense Base Closure and Realignment grants..... | -3,468 |
| Other miscellaneous changes..... | -269 |

Total **-\$16,836**

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

The Budget Reconciliation and Financing Act (BRFA) of 2009 includes several provisions that specifically impact the department. First, the Act reduces the mandated appropriation to the Maryland Tourism Development Board from \$6.0 million to \$4.9 million in fiscal 2010 and 2011. The Act also specifies that funding be \$5.5 million for fiscal 2012 and back to \$6.0 million in fiscal 2013.

Secondly, a provision alters the funding requirement for the Maryland State Arts Council. Current law requires the proposed appropriation to be set at the previous year's level, plus a rate of growth equal to the rate of growth of projected general fund revenues. However, the BRFA reduces the mandated amount for fiscal 2010 and 2011 to \$10,545,740, a decrease of \$6 million from the currently required level. The BRFA establishes the fiscal 2012 funding at \$13,545,740 and the fiscal 2013 funding at \$16,545,740, after which the increases based on general fund growth would resume.

The BRFA also transfers to the general fund, \$5 million in special funds from the Economic Development Opportunities Program fund in fiscal 2009 and \$5 million in special funds from the Maryland Economic Development Assistance Authority Fund in both fiscal 2009 and 2010.

Biotechnology Initiatives

The fiscal 2010 allowance includes funds for the newly created Maryland Biotechnology Center. The center is designed to be a “one-stop shop” to serve as a central repository of statewide resources for area biotechnology companies. The center has staff to provide assistance to area companies, market the State's biotechnology resources, and build relationships with federal laboratories, universities, and private sector companies. Through the department's reorganization, resources were realigned in fiscal 2009 to establish the center with the existing appropriation. The fiscal 2010 allowance includes an increase in funding of approximately \$1.66 million. Most of the increase is attributable to new grant programs housed within the Maryland Biotechnology Center.

Chapter 446 of 2008 established the Coordinated Emerging Nanobiotechnology Research in Maryland Program (CENTR) to provide grants to higher educational institutions and private sector entities to support advanced nanobiotechnology research. This program was funded at \$3 million in fiscal 2009. The fiscal 2010 allowance provides no funds for the CENTR program.

The Administration's biotechnology initiatives are discussed in further detail under Issue 1 of this analysis.

Decrease Planned 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 2010 allowance includes \$20 million in special funds for MEDAAF, which is a decrease of \$6.45 million from the previous year. The fund balance summary is shown in **Exhibit 2**.

Exhibit 2
Department of Business and Economic Development
Maryland Economic Development Assistance and Authority Fund
Fund Balance Worksheet
Fiscal 2007-2010
(\$ in Thousands)

| | <u>Actual</u> <u>2007</u> | <u>Actual</u> <u>2008</u> | <u>Est.</u> <u>2009</u> | <u>Est.</u> <u>2010</u> |
|--|------------------------------|------------------------------|----------------------------|----------------------------|
| Beginning Balance | \$48,872 | \$49,144 | \$45,016 | \$22,802 |
| Revenues | | | | |
| General Funds (GF) | \$4,345 | \$0 | \$0 | \$0 |
| Transfer of GF to Rural Broadband Fund | 0 | 0 | 0 | 0 |
| Transfer from Rainy Day Fund | 0 | 0 | 0 | 0 |
| General Obligation Bonds | 0 | 0 | 0 | 0 |
| Investment Income | 3,840 | 4,048 | 2,000 | 1,500 |
| Interest Income | 1,870 | 1,384 | 1,000 | 1,000 |
| Loan Repayments | 10,002 | 8,221 | 4,000 | 4,000 |
| Loan Recoveries and Grant Repayments | 2,364 | 904 | 500 | 500 |
| Cancelled Prior Year Encumbrances | 0 | 0 | 0 | 0 |
| Brownsfield Local Property Tax Cont. | 905 | 516 | 500 | 500 |
| Other Income | 221 | 638 | 10 | 10 |
| Total Revenues | \$23,547 | \$15,711 | \$8,010 | \$7,510 |
| Total Funds Available | \$72,419 | \$64,855 | \$53,026 | \$30,312 |
| Expenditures | | | | |
| New Encumbered/Approved Projects | \$21,316 | \$15,767 | \$19,650 | \$18,000 |
| Rescissions of New Approvals | -2,569 | -2,733 | -2,000 | -2,000 |
| Operating Expenses | 656 | 757 | 0 | 0 |
| Indirect Expenses | 1,883 | 2,055 | 3,774 | 6,246* |
| Transfers to Other Fund | 2,000 | 4,000 | 3,800 | 0 |
| Prior Period Operating/Indirect Adjustment | -12 | -7 | 0 | 0 |
| Total Expenditures | \$23,274 | \$19,839 | \$25,224 | \$22,246 |
| Proposed Transfer to General Fund | | | -\$5,000 | -\$5,000 |
| Ending Balance | \$49,145 | \$45,016 | \$22,802 | \$3,066 |

*\$2.0 million is transferred to the Maryland BioCenter for grants.

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

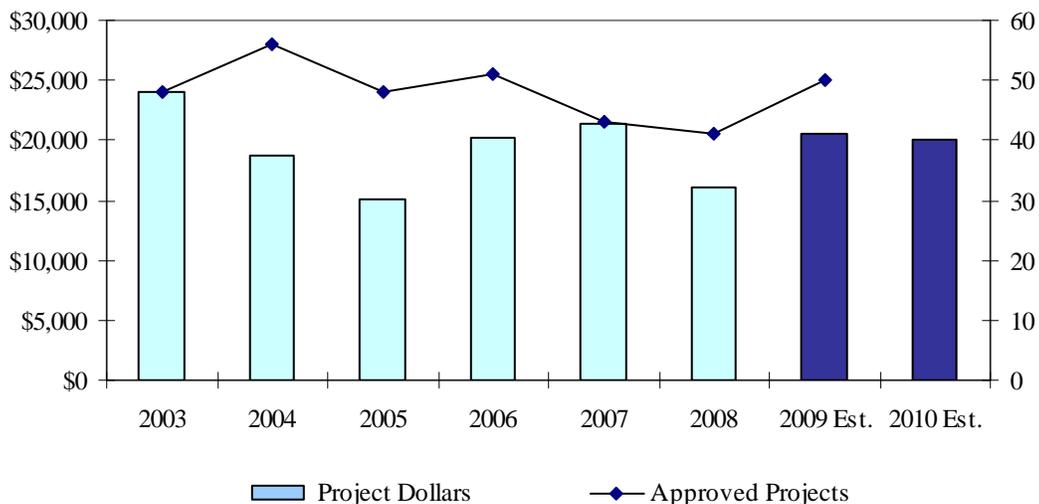
Source: Governor's Budget Books, Fiscal 2010

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The exhibit shows that estimated revenues for fiscal 2009 and 2010 are declining. Loan repayments and investment income are expected to be far less than in prior years. However, the department is attempting to maintain a comparable level of activity under the program. Furthermore, as the fund is used to fund internal programs, it becomes more responsible for departmentwide operating expenses. The result of these factors is a draw down of the fund’s balance in fiscal 2009 and 2010. When adjusting for the BRFA reduction, the fund balance is expected to be about \$3 million at the end of fiscal 2010.

In fiscal 2009, the department expects to approve a total of 50 projects as shown in **Exhibit 3**. To date, \$3.7 million in projects have been disbursed and an additional \$2.9 million has been encumbered. Proposal letters have been sent out for projects totaling \$4.3 million, leaving about \$9.5 to be committed for the remainder of the fiscal year.

Exhibit 3
Maryland Economic Development Assistance and Authority Fund
Project Activity
Fiscal 2003-2010
(\$ in Thousands)



| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009 Est.</u> | <u>2010 Est.</u> |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|------------------|
| Project Dollars | \$24,021 | \$18,798 | \$15,021 | \$20,156 | \$21,424 | \$16,087 | \$20,500 | \$20,000 |
| Approved Projects | 48 | 56 | 48 | 51 | 43 | 41 | 50 | 50 |

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 it is approved and when it closes. Does not include dollars for projects that have been fully or partially rescinded.

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

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

Exhibit 4
Department of Business and Economic Development
Business Assistance Fund Balances
Fiscal 2010
(\$ 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 | \$22,802 | \$4,469 | \$2,200 | \$110 | \$6,400 |
| Revenue | 7,510 | 16,289 | 1,160 | 105 | |
| Total Funds Available | \$30,312 | \$20,758 | \$3,360 | \$215 | \$6,400 |
| Total Expenditures/ Encumbrances | \$22,246 | \$16,876 | \$3,324 | \$0 | |
| Transfer to GF (Fiscal 2009) | -\$5,000 | | | | -\$5,000 |
| Ending Balance | \$3,066 | \$3,882 | \$36 | \$215 | \$1,400 |

MEDAAF: Maryland Economic Development Assistance Authority and Fund

MSBDFA: Maryland Small Business Development Financing Authority

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

Source: Governor’s Budget Books, Fiscal 2009

The Maryland Economic Adjustment Fund has not generated enough special fund revenue to allow for an appropriation in fiscal 2010. The allowance, therefore, declines by \$1 million. The fund’s goal is to provide loans to new or existing companies in communities suffering displacement due to defense adjustments. Given the positive defense adjustments for the State resulting from Base Realignment and Closure (BRAC), this program may need to restructure its focus.

The Sunny Day Fund is not expected to be utilized in fiscal 2010. With the BRFA transfer, and accounting for loan repayments, the balance is expected to fall to about \$1.4 million.

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Despite the transfer of MEDAAF funds to the general fund, the department is attempting to maintain a similar level of project activity in fiscal 2009 and 2010. However, given the transfer and the lowered expectations for repayments, this level of activity may be optimistic and is not sustainable in the out-years. The department has a goal of supporting business retention, expansion, and growth through the use of the financing programs. This is especially pertinent during times of economic downturn. It is unclear if the current level of funding in MEDAAF and the other financing programs will allow for a commitment to the department's goals.

The department should comment on the commitment to the future of business development programs and if the lower funding levels will result in a reduced need for staff and other resources.

Budget Reconciliation and Financing Act of 2009

As mentioned above, the BRFA includes two provisions that affect the department's fiscal 2010 allowance. The Maryland Tourism Board and the Maryland State Arts Council experienced reductions in the fiscal 2009 cost containment effort. The original fiscal 2010 allowance reflects an increase in both programs to meet the level of appropriation required by statute. The BRFA would change these mandates and reduce funding by \$1.1 million for the Maryland Tourism Board and by \$6.0 million for the Maryland State Arts Council. The fiscal 2010 budget bill includes contingent reduction language reflecting this proposal. The BRFA language begins to restore mandated increases to the two offices beginning in fiscal 2012.

The BRFA also transfers to the general fund \$5 million in special funds from the Sunny Day fund and \$5 million in special funds from MEDAAF in both fiscal 2009 and 2010.

To implement long-term general fund savings and ameliorate the State's structural deficit, DLS recommends that the BRFA be amended to continue the fiscal 2010 level of funding as a permanent change to the spending mandates of the Maryland Tourism Board and the Maryland State Arts Council.

Other Programmatic Changes

Many of the department's other programs experience decreases in funding in the fiscal 2010 allowance. The Maryland Industrial Training Program provides incentive grants to train employees in companies locating to or expanding in Maryland. This program was reduced by about \$391,000. Funding for the program is at \$1 million for fiscal 2010. However, despite this reduction, the department's new performance measures project a similar level of performance for fiscal 2010 as it experienced in fiscal 2008.

In fiscal 2009, the department was responsible for the dissemination of a \$4 million grant from the federal Office of Economic Adjustment. The funds, in part, were provided to the Departments of the Environment, Transportation, and Planning for projects to accommodate BRAC-related growth on and around Maryland's military installations. These projects include

regional traffic analysis, aquifer assessments, water and wastewater treatment systems assessments, and support of the BRAC subcabinet staff. The fiscal 2010 allowance decreases, reflecting the one-time nature of this grant.

The Film Production Rebate Program was reduced by \$500,000 in the fiscal 2010 allowance. This program's funding was already reduced from \$4 million to \$2.5 million in the fiscal 2009 cost containment effort. Remaining in the program is \$2 million to provide rebates against the qualified costs of film production companies.

Proposed Federal Stimulus

Congress passed the American Recovery and Reinvestment Bill of 2009. The federal legislation has many components that may impact the department and its services. For example, the legislation includes funds for broadband and wireless services in underserved areas. Also, there are funds proposed for expanding employment opportunities in science and engineering to meet environmental challenges and to improve global economic competitiveness.

The legislation includes proposed programs to assist various business, including funds for (1) new direct lending and loan guarantee authorities to make loans more attractive to lenders and free up capital; (2) loans for rural businesses; (3) the Technology Innovation Program to accelerate research in potentially revolutionary technologies with high job growth potential; (4) the Manufacturing Extension Partnerships to help small and mid-size manufacturers compete globally; and (5) to address long-term economic distress in urban industrial cores and rural areas distributed based on need and ability to create jobs and attract private investment.

The department should brief the budget committees on the impact of the proposed federal stimulus on the department's programs and on the State economy as a whole, especially in light of the potential significant federal funds for research and development.

Issues

1. Maryland Bio 2020 Initiative

In June 2008, the Administration announced the Maryland Bio 2020 initiative as a plan to “leverage Maryland’s science and technology assets and nationally acclaimed workforce to attract and grow the bioscience opportunities of tomorrow in Maryland.” The initiative was influenced by recommendations of the Maryland Life Sciences Advisory Board. The board was created by Chapter 304 of 2007, in part, to develop a strategic plan for life sciences in the State.

The Maryland Bio 2020 initiative called for significant enhancements to current statewide technology programs and the creation of new programs by the year 2020. For example, the plan calls for the expansion of the State’s incubator network and for the increase in technology transfers. The initiative relies heavily on the ability of the State to leverage significant private investment. Over 10 years, the plan projects a State investment of \$1.3 billion and private investment of \$6.4 billion. Within the purview of DBED, the plan calls for an expansion of the Maryland Biotechnology Investment Tax Credit, the expansion of nanotechnology investments and an enhancement of the Challenge and Enterprise Fund. However, the current fiscal situation has curtailed much of the original plan.

As mentioned earlier in this analysis, the allowance does include funds for one of the new components of the Bio 2020 initiative – the Maryland Biotechnology Center. The center is designed to be a “one-stop shop” to serve as a central repository of statewide resources for area biotechnology companies. The center has staff to provide assistance to area companies; market the State’s biotechnology resources; and build relationships with federal labs, universities, and private sector companies.

The fiscal 2010 allowance includes \$5.2 million in general and special funds for the newly created center. The department has reallocated resources from various divisions within the department to fund the center. The reallocated monies allow the department to fund 13 positions, operating expenses, and a grant program.

The fiscal 2010 allowance includes almost \$2 million in grant funds to establish the center’s Biotechnology Development Program. The program includes:

- **Institutional Grants:** supports universities and other non-profit research organizations to purchase multi-user equipment or infrastructure;
- **Young Investigator Grants:** supports new faculty with promising applied research outcomes in biotechnology; and
- **Biotechnology “PUSH” Grants:** supports phase 2 biotechnology projects that are suitable for commercialization.

The \$2.0 million in grant funds for these programs are made available through MEDAAF. MEDAAF is also providing over \$600,000 for operating costs for the center. The Maryland Enterprise Fund is providing about \$110,000. The remaining funds, about \$2.6 million, are from the general fund.

DLS recommends that the department comment on the Maryland Bio 2020 Initiative, the Maryland Biotechnology Center, and how the State can leverage private investments in light of current economic conditions.

2. Effort to Measure Performance Evolves Under Managing for Results and StateStat

The department has long struggled with measuring the performance of their programs under the Managing for Results initiative. The first concern related to the level of accuracy and reliability of the department's data.

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 session requesting that DBED report to the Office of Legislative Audits on steps taken to improve DBED's performance reporting. OLA concluded that DBED had taken significant steps to address data collection and reliability challenges by instituting a new computer system. 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.

In response to the OLA conclusions, the 2007 *Joint Chairmen's Report* 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. By a letter dated May 2, 2008, DBM has certified that the results are satisfactory. As a final adjustment, new measures have been adopted for the fiscal 2010 budget submission that reflects the reorganization of the department.

Beyond the issue of accurate and reliable data collection, it is not clear that the chosen measures actually demonstrate anything about program effectiveness. For example, the Division of Marketing and Business Development measures the number of new facility location leads and the number of facility location decisions. It would be useful to observe more outcome-based measures, such as the number of jobs associated with those facility decisions, average salary, and the monetary value to the State as a result of the new business relocation.

Some departmental programs do not have any measures at all. For example, the Office of Military and Federal Affairs is responsible for the department's BRAC-related efforts; however, there are no indicators that show the office's progress. As a more egregious example, the department does not provide any goals, objectives, outputs, or outcomes for the Maryland Biotechnology Investment

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Tax Credit program. The lack of these measurements leads to a less informed budget process. It is true that the department provides a summary report of each fiscal year's activity under the tax credit. However, this does not replace the need for a systematic year-to-year comparison of goals and objectives versus outcomes and achievements as provided in the Managing for Results process.

It should be noted that there are strong performance measures under the Division of Tourism, Film, and the Arts. Although the measures still appear to be evolving, those included in the fiscal 2010 budget submission do reflect the division's goals and objectives and are consistent with the department's mission. For example, the division has a goal to contribute to the State's economy by increasing tax revenue and jobs generated by visitor spending. This goal is supported by data showing sales tax revenue by tourism tax categories and by data showing the number of jobs in the arts, entertainment and recreation industry sectors. However, many of these measures are new and are, therefore, not yet conducive to year-to-year comparisons.

The department has experienced similar difficulties in refining its approach to the StateStat process. Original submissions of data to the StateStat staff were deemed not reflective of the department's core missions. The evolving nature of the department's structure and the roles of key personnel at the time of submission compounded the issue. After further collaboration with the StateStat staff, the department has submitted new data to show day-to-day activities that support the mission. For example, DBED is reporting the issues resolved, outreach activities, and business retention visits of each of the regional offices on a monthly basis. This will allow the department to target limited resources more efficiently.

DLS recommends that the department comment on progress in establishing useful and accurate performance measures.

DLS further recommends adding budget bill language restricting the appropriation of the Maryland Biotechnology Investment Tax Credit program until the department submits a report on meaningful performance measures that will be included in future budget submissions.

Recommended Actions

| | <u>Amount Reduction</u> | | <u>Position Reduction</u> |
|---|------------------------------------|----|--------------------------------------|
| 1. Delete the technology policy advisor position within the Office of the Secretary. The technology expertise of the State's Life Sciences Advisory Board and housed within the department's Biotechnology Center is sufficient for the department's needs. | \$ 142,694 | GF | 1.0 |
| 2. Reduce grant funds for military alliances. This action returns funding to the cost containment level of fiscal 2009. | 41,300 | GF | |
| 3. Delete funds for a grant to the University System of Maryland under the Nano-Biotechnology Initiative Fund. Given the current fiscal condition of the State, it is advisable to forgo this grant for the upcoming fiscal year. | 1,000,000 | GF | |
| 4. Delete one position within the Office of Business and Legislative Relations. This office appears to be overly staffed with administrators and managers, especially given the overall size of the department. | 115,000 | GF | 1.0 |
| 5. Delete one position within the Office of Policy, Planning, and Research. This office appears to be overly staffed with administrators and managers, especially given the overall size of the department. | 115,000 | GF | 1.0 |
| 6. Reduce grant funds for various regional and private economic development councils. This action returns funding to the cost containment level of fiscal 2009. | 216,080 | GF | |

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

. provided that this appropriation may not be expended until a report is submitted to the budget committees that details the goals, objectives, and outcome measures for the Maryland Biotechnology Investment Tax Credit Reserve Fund. The measures should reflect the number of recipients, amount of private investment leveraged, any new jobs created, long-term company retention data, and any other measure deemed reflective of the program’s mission. Further provided that the adopted measures shall be included in future budget submissions.

Explanation: This language restricts funds under the Maryland Biotechnology Investment Tax Credit Program until the department submits performance measurement data associated with the program. The department has long struggled with its Managing for Results (MFR) data. While it appears that the department has improved the accuracy of the submission, it cannot be said that the data allows for meaningful analysis of the department’s programs. In particular, the department has failed to submit any goals, objectives, or outcome measures for the Biotechnology Tax Credit program. This language will encourage the inclusion of measures for this program under the MFR initiative.

| Information Request | Author | Due Date |
|--------------------------------|---|---------------------------------|
| Report on performance measures | Department of Business and Economic Development | 45 days before release of funds |

8. Strike the following language on the general fund appropriation:

~~, provided that this appropriation shall be reduced by \$1,100,000 contingent upon the enactment of legislation reducing the mandated amount of funds for the Maryland Tourism Development Board.~~

Explanation: Technical amendment to reflect a budget action.

| | <u>Amount Reduction</u> | <u>Position Reduction</u> |
|---|--------------------------------|----------------------------------|
| 9. Reduce general funds under the Maryland Tourism Board. | \$1,100,000 | GF |
| 10. Deletes the funds for the sponsorships and grants for local film festivals. This represents a new use for these funds and unnecessary given the current fiscal climate. | 54,900 | GF |

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11. Strike the following language on the general fund appropriation:

~~; provided that this appropriation shall be reduced by \$6,000,000 contingent upon the enactment of legislation reducing the mandated amount of funds for the Maryland State Arts Council.~~

Explanation: Technical amendment to reflect a budget action.

| | <u>Amount Reduction</u> | <u>Position Reduction</u> |
|--|-----------------------------|-------------------------------|
| 12. Reduce general fund grants under the Maryland State Arts Council. | \$6,000,000 | GF |
| 13. Delete the funds for the Film Production Rebate Program. Cost containment efforts have reduced this program to a level of funding too low to truly be effective. | 2,000,000 | GF |
| 14. Amend the following language: | | |
| Executive VII | 9907 | 116,963 |
| Explanation: This action deletes the technology policy advisor position from the Executive Pay Plan schedule. | | |
| Total General Fund Reductions | \$ 10,784,974 | 3.0 |

Updates

1. Rural Broadband Report

The fiscal 2009 operating budget bill included language that authorizes the use of \$2 million of Maryland Economic Development Assistance Authority special fund appropriations as a source of State assistance for the Rural Broadband project. The language further stipulated that the funds are restricted from expenditure pending the submission of a report to the budget committee that provides a status report on the project. The budget committees have 45 days to review and comment on the report. The language reads as follows:

“, 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 to the budget committees 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. The budget committees shall have 45 days to review and comment.”

Background

Chapter 269 of 2006, codified as the Economic Development Article, Sections 5-1101 through 5-1102 of the Annotated Code of Maryland, established the Rural Broadband Assistance Fund (RBAF) as a special non-lapsing fund within the department. Chapter 269 also established the Maryland Rural Broadband Coordination Board which is responsible for the review and approval of RBAF disbursements for the purpose of providing financial assistance in the establishment of broadband communication services in rural and underserved areas of the State. The Rural Broadband Cooperative was formed to coordinate the implementation of the new infrastructure which will be available to private sector, federal, State, and local government organizations. The cooperative is authorized to expend from the Rural Broadband fund, which may be used for the planning, construction, and maintenance of broadband communication services and equipment.

During budget deliberations in the 2008 session, the committees were concerned that while the State’s funding commitments established by Chapter 269 had been met, the project was not nearing completion. Furthermore, since the 2008 *Capital Improvement Program* did not include additional State funding commitments in the five-year plan beyond what was proposed for the fiscal 2009 budget, there was additional concern regarding how the project would be funded and supported. As such, the budget committees asked for detailed information on the status of funds and the progress of this initiative.

On December 6, 2008, DBED and the Maryland Broadband Cooperative submitted the required report. According to the report, the Maryland Broadband Cooperative, recipient of the State funds, has completed Phase I of the initiative. Phase I includes over 125 miles of fiber backbone, providing high-speed Internet access to many underserved communities of rural Maryland. Examples of the cooperative’s beneficiaries include Pocomoke Industrial Park, Princess Anne Industrial Park,

University of Maryland Eastern Shore, and portions of Cecil County. Total cost to complete Phase I was \$3.8 million, which included almost \$2.0 million in State funds.

Phase II is currently underway and is expected to extend the network from Salisbury to the Bay Bridge and will include additional construction to Wallops Island. Costs are projected to be approximately \$7.7 million. According to the report, the cooperative is using over \$4.0 million in State funds for Phase II. Completion is expected in March 2009.

A planned Phase III includes further extension of the network in Pocomoke City, from Easton to Chestertown and from Bridgetown to Centreville. Total costs for Phase III are projected at \$7.1 million. Again, State funds are budgeted at \$3.9 million for this final phase.

Not included in the report are specific plans for fiber optic network expansion for Western or Southern Maryland. The cooperative is pursuing short-term opportunities for these regions and is seeking revenue solutions for build-out of infrastructure.

2. Base Realignment and Closure

In order to address an excess capacity of military facilities, the U.S. Congress created a process in 1990 known as Base Realignment and Closure. The final plans regarding military installations nationwide became effective in November 2005.

The 2005 BRAC plans impact a number of federal military installations in Maryland, resulting in an estimated 27,379 direct new jobs through 2011 and placing the State among the largest beneficiaries nationally. These changes will affect Fort Meade, the National Naval Medical Center, Andrews Air Force Base, Aberdeen Proving Ground, and Fort Detrick. Thousands more indirect jobs are expected to be created through contractors and related services, for an estimated total of more than 45,000 federal and private-sector jobs. It is further estimated that Maryland will gain more than 28,000 households by the time the BRAC process is complete.

Chapter 6 of 2007 created a 10-member BRAC subcabinet in State government chaired by the Lieutenant Governor. The subcabinet, composed of eight State secretaries of cabinet departments and the State Superintendent of Schools, is charged with a number of tasks. The department has been engaged in a number of activities to prepare for an influx of new residents and new businesses as a result of base realignment and closure.

First, DBED is administering the newly created BRAC Revitalization and Incentive Zone Program. The program makes available financial assistance to focus growth in areas that are already designated for growth and provides local governments with assistance for infrastructure improvements in those areas. Five zones were approved in 2008 in the cities of Baltimore, Frederick, and Laurel and in Anne Arundel and Prince George's counties.

The department's Office of Military and Federal Affairs staffs the Maryland Military Installation Council. The council held three meetings in 2008 that served as status briefings

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regarding the BRAC actions of each of the military installations and State agencies. The office also encourages partnerships among communities, private sector, local, State, and federal agencies to facilitate the BRAC progress.

The department also managed a federal grant from the Office of Economic Adjustment. The funds, in part, were provided to the Departments of the Environment, Transportation and Planning for projects to accommodate BRAC-related growth on and around Maryland's installations. These projects include regional traffic analysis, aquifer assessments, water and wastewater treatment systems assessments, and support of the BRAC subcabinet staff.

Finally, DBED is tailoring many of its current programs and services to respond to specific BRAC-related business concerns.

3. Major Grants

The department awarded \$26.4 million in grants in fiscal 2008, as shown in **Exhibit 5**. The exhibit also shows that \$19.5 million in awards is expected in fiscal 2009 – the decrease reflecting the cost containment actions. The fiscal 2010 allowance includes \$22.9 million in grant awards; however, this does not reflect the provisions that may be enacted through the BRFA.

Exhibit 5
Department of Business and Economic Development
Summary of Major Grants
Fiscal 2008-2010

| | Actual 2008 | Revised Budget Appropriation 2009 | Allowance 2010 |
|---|------------------------|--|---------------------------|
| Office of the Secretary | | | |
| Office of International Trade and Development | | | |
| Maryland Israel Development Corp | \$233,268 | \$100,000 | \$175,000 |
| World Trade Center Institute | 242,300 | 222,300 | 222,300 |
| Export MD – Small Business Foreign Trade Grants | 85,477 | 100,000 | 100,000 |
| Military/Federal and BRAC Assistance | | | |
| Southern MD Navy Alliance | 50,000 | 30,000 | 30,000 |
| Army Alliance | 50,000 | 30,000 | 33,000 |
| Montgomery County – White Oak | 26,000 | 10,000 | 15,000 |
| Fort Meade Alliance | 50,000 | 30,000 | 33,000 |
| Fort Detrick Alliance | 20,000 | 9,677 | 20,000 |
| Maryland Maritime Alliance | 27,000 | 19,358 | 27,000 |
| Indian Head Alliance | 25,000 | 23,000 | 23,000 |

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| | Actual 2008 | Revised Budget Appropriation 2009 | Allowance 2010 |
|---|------------------------|--|---------------------------|
| Office of the Secretary (Cont.) | | | |
| Army Alliance Statewide BRAC Support | 29,000 | 19,000 | 32,000 |
| Federal Funds – Office of Economic Adjustment | | | |
| Maryland Department of the Environment | 1,818,750 | - | |
| Maryland Department of Planning | 95,026 | - | |
| Maryland Department of Transportation | 1,595,026 | - | |
| Maryland Biotechnology Center | | | |
| Nano-Biotechnology Assistance via UMCP | 2,400,000 | 1,800,000 | 1,000,000 |
| New Biotech Grant Assistance | | 70,000 | 2,000,000 |
| Total Office of the Secretary | \$6,771,847 | \$2,500,000 | \$3,743,300 |
| Division of Marketing and Business Development | | | |
| Chesapeake Crescent | | \$100,000 | \$100,000 |
| Univ. of MD Law School – Intellectual Properties | 50,000 | | |
| Total Division of Marketing and Business Development | \$50,000 | \$100,000 | \$100,000 |
| Division of Economic Development | | | |
| Workforce Development and Coordination | | | |
| Maryland Industrial Training Program | \$2,030,958 | \$1,421,776 | \$1,030,958 |
| Partnership for Workforce Quality | 1,007,954 | 615,364 | 625,954 |
| Workforce Development | | | |
| Governor’s Workforce Investment Board | 26,494 | 25,624 | 23,494 |
| Small Business | | | |
| Strategic Assistance Consulting Fund – Booth | 250,000 | 117,920 | 225,700 |
| Small Business Development Center/Univ. of MD | 135,000 | 135,000 | 135,000 |
| University of Maryland – SBDC | 85,400 | 85,400 | 85,400 |
| Micro Enterprise Council of Maryland | 50,000 | 50,000 | |
| Community Development | | | |
| Chesapeake Crescent | 250,000 | | |
| Appalachian Regional Commission | 15,269 | 15,269 | 15,629 |
| Tri-County Council of Western Maryland | 140,000 | 98,000 | 112,000 |
| Tri-County Council of Southern Maryland | 140,000 | 98,000 | 112,000 |
| Mid-Shore Regional Council | 140,000 | 98,000 | 112,000 |
| Tri-County Council Lower Shore | 140,000 | 98,000 | 112,000 |
| Upper Shore Regional Council | 140,000 | 98,000 | 112,000 |
| University of Baltimore – Entrep. Opport. | - | 35,000 | 40,000 |

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| | Actual 2008 | Revised Budget Appropriation 2009 | Allowance 2010 |
|--|------------------------|--|---------------------------|
| Division of Economic Development (Cont.) | | | |
| Technology Council of Maryland | 133,000 | 93,100 | 106,400 |
| Greater Baltimore Technology Council | 133,000 | 93,100 | 106,400 |
| Other | - | - | |
| Econ. Alliance of Greater Baltimore | 50,000 | 105,000 | 120,000 |
| University of Maryland – MTES | 45,000 | 39,300 | 36,000 |
| Greater Washington Initiative | 15,000 | | |
| Total Division of Economic Development | \$4,927,075 | \$3,321,853 | \$3,110,935 |
| Division of Tourism, Film, and the Arts | | | |
| Downtown Partnership | 100,000 | 70,000 | 70,000 |
| Capital Region USA, Inc. | 350,000 | 139,500 | 240,000 |
| Maryland State Arts Council Grants | | | |
| Baltimore Symphony Orchestra | 2,315,764 | 1,704,239 | |
| The Walters Art Gallery | 948,309 | 898,492 | |
| The Baltimore Museum of Art | 880,139 | 877,109 | |
| Baltimore Clayworks | 86,897 | 68,545 | |
| Center Stage Associates, Inc. | 567,785 | 520,518 | |
| Baltimore Opera Company, Inc. | 436,992 | 399,143 | |
| Maryland – National Capital Park and Planning | 257,924 | 247,575 | |
| American Visionary Art Museum, Inc. | 184,666 | 174,107 | |
| Olney Theater Center for the Arts | 225,000 | 230,750 | |
| Round House Theater, Inc. | 281,107 | 260,178 | |
| Maryland Hall for the Creative Arts | 95,000 | 105,185 | |
| Strathmore Hall Arts Center | 468,407 | 424,116 | |
| Maryland Symphony Orchestra | 86,389 | 84,883 | |
| Jewish Community Center of Washington | 64,489 | 37,744 | |
| Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts) | 343,985 | 325,113 | |
| Liz Lerman Dance Exchange | 102,597 | 103,124 | |
| Baltimore’s Festival of the Arts, Inc. | 62,605 | 72,660 | |
| Jewish Community Center of Baltimore/ Gordon Center | 55,000 | 44,193 | |
| University of Maryland Smith Performance Arts Center at Maryland | 330,000 | 310,625 | |
| National Chamber Orchestra Society, Inc./ National Philharmonic | 75,000 | 79,875 | |

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| | Actual <u>2008</u> | Revised Budget Appropriation <u>2009</u> | Allowance <u>2010</u> |
|--|-------------------------------|---|----------------------------------|
| Maryland State Arts Council Grants (Cont.) | | | |
| Everyman Theatre Inc. | 94,698 | 107,356 | |
| Academy Art Museum | 71,823 | 71,190 | |
| Annapolis Symphony Orchestra | 77,124 | 71,226 | |
| Class Acts Arts, Inc. | 80,000 | 79,875 | |
| Washington County Museum of Fine Arts | 60,024 | 55,913 | |
| The Writer's Center | 54,966 | 54,593 | |
| Avalon Foundation Inc. | 60,000 | 59,319 | |
| The Ward Museum of Wildfowl Art | 60,024 | 58,335 | |
| Young Audiences of Maryland Inc. | 55,551 | 61,133 | |
| Grants to All Other Arts Organizations | 2,180,076 | 2,633,961 | |
| Subtotal – Grants to Arts Organizations⁽¹⁾ | \$10,662,341 | \$10,221,075 | \$11,706,852 |
| Community Arts Development | \$2,450,642 | \$2,065,019 | \$2,345,297 |
| Artists in Education | 743,047 | 758,000 | 969,302 |
| Individual Artists and Other Programs | 379,482 | 300,000 | 581,881 |
| Total – Maryland State Arts Council | \$14,235,512 | \$13,344,094 | \$15,603,332 |
| BRFA of 2009 Contingent Reduction | | | -\$6,000,000 |
| New Total – Maryland State Arts Council | | | \$9,603,332 |
| Total – Division of Tourism, Film, and the Arts | \$14,685,512 | \$13,553,594 | \$9,913,332 |
| Total DBED | \$26,434,434 | \$19,475,447 | \$16,867,567 |

BRAC: Base Realignment and Closure

BRFA: Budget Reconciliation and Financing Act

DBED: Department of Business and Economic Development

MTES: Maryland Technology Extension Service

SBDC: Small Business Development Center

UMCP: University of Maryland, College Park

⁽¹⁾ The distribution of Maryland State Arts Council grants to arts organizations for fiscal 2010 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)

| Fiscal 2008 | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| Legislative Appropriation | \$70,478 | \$50,777 | \$645 | \$188 | \$122,088 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 309 | 5,593 | 3,999 | 50 | 9,951 |
| Cost Containment | -3,106 | -22 | 0 | 0 | -3,128 |
| Reversions and Cancellations | -38 | -10,655 | -186 | 0 | -10,879 |
| Actual Expenditures | \$67,643 | \$45,693 | \$4,458 | \$238 | \$118,032 |
| Fiscal 2009 | | | | | |
| Legislative Appropriation | \$69,975 | \$57,733 | \$4,682 | \$87 | \$132,477 |
| Cost Containment | -10,639 | -28 | -3 | 0 | -10,670 |
| Budget Amendments | 301 | 94 | 1 | 0 | 396 |
| Working Appropriation | \$59,637 | \$57,799 | \$4,680 | \$87 | \$122,203 |

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

Fiscal 2008

The department's actual expenditures were considerably less than what was originally appropriated in fiscal 2008. This was largely due to cost containment efforts and significant cancellation of funds.

General funds, however, did increase by \$309,196 in fiscal 2008 to support the employee cost-of-living adjustment. Conversely, cost containment efforts resulted in a general fund reduction of over \$3.1 million, including the abolishment of six positions.

Special funds increased by \$5,593,432 over the original appropriation. Of this, \$93,432 was due to the cost-of-living adjustment. An additional budget amendment increased special funds by \$5.5 million for conditional loans under the Sunny Day program. However, the department cancelled over \$10.6 million in special funds for fiscal 2008. Of this, approximately \$8.4 million was due to smaller and fewer credit line draws on the Contract Finance program within the Maryland Small Business Development Financing Authority.

Special funds in the amounts of about \$310,000 and \$480,000 went unspent within the Enterprise Investment program and the MEDAAF program, respectively. Additionally, approximately \$260,000 in special funds were cancelled due to lower than expected activity under the Artists in Education program within the Arts Council. The remaining canceled funds can be attributed to savings due to vacancies and delayed information technology purchases.

Federal funds increased by \$3,999,365 due to a budget amendment related to BRAC activities. The department is the lead agency handling BRAC activities, working with the federal government and providing funds to the other agencies to carry out BRAC-related projects. The agencies working in conjunction with DBED are the Maryland Department of Transportation, which received \$1,595,026 in grant funds, the Maryland Department of the Environment, which received \$1,818,750 million in grant funds, and the Maryland Department of Planning, which received \$95,026 in grant funds. The remaining funds provided staff and covered related expenses for the department, including travel, supplies, and communication, to respond to the planning and implementation requirements of BRAC. However, largely due to a delay in full staffing at the department, \$186,000 in federal funds went unspent and was cancelled.

Fiscal 2009

The cost-of-living salary adjustment increased general funds by \$300,624 and special funds by \$94,131 over the original appropriation.

Federal funds increased by \$956 for the Maryland State Arts Council provided by the National Endowment for the Arts.

Audit Findings

| | |
|------------------------------|-------------------------------------|
| Audit Period for Last Audit: | August 1, 2004 – September 30, 2007 |
| Issue Date: | November 2008 |
| Number of Findings: | 11 |
| Number of Repeat Findings: | 1 |
| % of Repeat Findings: | 9% |
| Rating: (if applicable) | n/a |

- Finding 1:** DBED did not always obtain adequate documentation to verify initial and continued eligibility for income tax credits approved and, in one case, approved an ineligible \$50,000 credit.
- Finding 2:** DBED did not have adequate controls over the issuance of sales tax exemption certificates.
- Finding 3:** **DBED’s process for verifying employment data reported by loan recipients prior to forgiveness of loans was not effective.**
- Finding 4:** Reporting requirements included in DBED’s contract for the operation of its international offices were not consistent and were not always enforced.
- Finding 5:** Required activity and financial reports were not always received from certain grantees.
- Finding 6:** DBED did not obtain adequate documentation to verify compliance with certain requirements relating to the administration of the Maryland Small Business Development Financing Authority’s financing programs.
- Finding 7:** Proper internal controls were not established over the processing of purchasing transactions.
- Finding 8:** Expenditures were not always adequately supported or made in accordance with contract terms.
- Finding 9:** Controls over State checks received by DBED for subsequent distribution to applicable payees were not sufficient.
- Finding 10:** DBED did not have formal procedures requiring a documented evaluation of the effectiveness of significant promotional and marketing events.

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Finding 11: DBED entered into separation agreements with certain employees, allowing them to remain on the payroll for extended periods beyond their effective termination dates.

*Bold denotes item repeated in full or part from preceding audit report.

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

| <u>Object/Fund</u> | <u>FY08 Actual</u> | <u>FY09 Working Appropriation</u> | <u>FY10 Allowance</u> | <u>FY09 - FY10 Amount Change</u> | <u>Percent Change</u> |
|---|------------------------|---|---------------------------|--------------------------------------|---------------------------|
| Positions | | | | | |
| 01 Regular | 276.00 | 261.00 | 261.00 | 0 | 0% |
| 02 Contractual | 32.65 | 34.15 | 27.60 | -6.55 | -19.2% |
| Total Positions | 308.65 | 295.15 | 288.60 | -6.55 | -2.2% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 21,277,721 | \$ 22,469,575 | \$ 23,454,985 | \$ 985,410 | 4.4% |
| 02 Technical and Spec. Fees | 1,197,030 | 1,429,099 | 1,174,125 | -254,974 | -17.8% |
| 03 Communication | 1,040,132 | 1,077,614 | 1,086,834 | 9,220 | 0.9% |
| 04 Travel | 631,773 | 648,670 | 691,134 | 42,464 | 6.5% |
| 06 Fuel and Utilities | 290,467 | 271,156 | 60,946 | -210,210 | -77.5% |
| 07 Motor Vehicles | 374,090 | 312,373 | 305,545 | -6,828 | -2.2% |
| 08 Contractual Services | 13,471,898 | 10,028,114 | 12,193,389 | 2,165,275 | 21.6% |
| 09 Supplies and Materials | 287,241 | 301,689 | 304,952 | 3,263 | 1.1% |
| 10 Equipment – Replacement | 573,154 | 16,548 | 18,108 | 1,560 | 9.4% |
| 11 Equipment – Additional | 458,319 | 0 | 0 | 0 | 0.0% |
| 12 Grants, Subsidies, and Contributions | 49,368,260 | 38,218,925 | 33,946,273 | -4,272,652 | -11.2% |
| 13 Fixed Charges | 2,230,484 | 2,072,670 | 2,331,538 | 258,868 | 12.5% |
| 14 Land and Structures | 22,832,663 | 45,355,750 | 37,905,750 | -7,450,000 | -16.4% |
| Total Objects | \$ 114,033,232 | \$ 122,202,183 | \$ 113,473,579 | -\$ 8,728,604 | -7.1% |
| Funds | | | | | |
| 01 General Fund | \$ 67,643,700 | \$ 59,636,944 | \$ 62,286,000 | \$ 2,649,056 | 4.4% |
| 03 Special Fund | 41,692,857 | 57,799,730 | 49,507,750 | -8,291,980 | -14.3% |
| 05 Federal Fund | 4,458,284 | 4,678,911 | 1,579,829 | -3,099,082 | -66.2% |
| 09 Reimbursable Fund | 238,391 | 86,598 | 100,000 | 13,402 | 15.5% |
| Total Funds | \$ 114,033,232 | \$ 122,202,183 | \$ 113,473,579 | -\$ 8,728,604 | -7.1% |

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Fiscal Summary
Department of Business and Economic Development

| <u>Program/Unit</u> | <u>FY08 Actual</u> | <u>FY09 Wrk Approp</u> | <u>FY10 Allowance</u> | <u>Change</u> | <u>FY09 - FY10 % Change</u> |
|--|------------------------|----------------------------|---------------------------|----------------------|---------------------------------|
| 0A Department Of Business And Economic Development | \$ 19,371,726 | \$ 20,459,132 | \$ 19,609,869 | -\$ 849,263 | -4.2% |
| 0E Division Of Marketing | 4,650,158 | 6,457,080 | 3,398,302 | -3,058,778 | -47.4% |
| 0F Division Of Financial Assistance Programs | 56,746,345 | 66,103,355 | 58,021,368 | -8,081,987 | -12.2% |
| 0G Division Of Tourism And Promotion | 33,265,003 | 29,182,616 | 32,444,040 | 3,261,424 | 11.2% |
| Total Expenditures | \$ 114,033,232 | \$ 122,202,183 | \$ 113,473,579 | -\$ 8,728,604 | -7.1% |
| General Fund | \$ 67,643,700 | \$ 59,636,944 | \$ 62,286,000 | \$ 2,649,056 | 4.4% |
| Special Fund | 41,692,857 | 57,799,730 | 49,507,750 | -8,291,980 | -14.3% |
| Federal Fund | 4,458,284 | 4,678,911 | 1,579,829 | -3,099,082 | -66.2% |
| Total Appropriations | \$ 113,794,841 | \$ 122,115,585 | \$ 113,373,579 | -\$ 8,742,006 | -7.2% |
| Reimbursable Fund | \$ 238,391 | \$ 86,598 | \$ 100,000 | \$ 13,402 | 15.5% |
| Total Funds | \$ 114,033,232 | \$ 122,202,183 | \$ 113,473,579 | -\$ 8,728,604 | -7.1% |

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.