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Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 10</u> <u>Actual</u>	<u>FY 11</u> <u>Working</u>	<u>FY 12</u> <u>Allowance</u>	<u>FY 11-12</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$46,958	\$56,575	\$58,378	\$1,803	3.2%
Contingent & Back of Bill Reductions	0	0	-278	-278	
Adjusted General Fund	\$46,958	\$56,575	\$58,099	\$1,524	2.7%
Special Fund	36,673	43,179	34,435	-8,744	-20.2%
Contingent & Back of Bill Reductions	0	0	-169	-169	
Adjusted Special Fund	\$36,673	\$43,179	\$34,267	-\$8,912	-20.6%
Federal Fund	1,822	1,907	1,767	-140	-7.3%
Contingent & Back of Bill Reductions	0	0	-9	-9	
Adjusted Federal Fund	\$1,822	\$1,907	\$1,758	-\$149	-7.8%
Reimbursable Fund	200	195	200	5	2.8%
Contingent & Back of Bill Reductions	0	0	-1	-1	
Adjusted Reimbursable Fund	\$200	\$195	\$199	\$5	2.4%
Adjusted Grand Total	\$85,653	\$101,855	\$94,323	-\$7,532	-7.4%

- Reflecting language in the Budget Reconciliation and Financing Act of 2010, the fiscal 2012 allowance includes a special fund deficiency for fiscal 2011 that provides funding for jurisdictions where electronic bingo machines or electronic tip jar machines are located. The allowance also withdrawals (negative deficiency) \$200,000 of fiscal 2012 general funds under the Maryland Tourism Development Board due to the department's inability to meet all of the provisions of restrictive budget language.
- The fiscal 2012 allowance declines by \$7.5 million from the fiscal 2011 working appropriation. This decline is primarily due to a change in how special funds are reported under the Maryland Small Business Development and Financing Authority. Absent this

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

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change, special funds increase by about \$3.3 million due, in large part, to the increase in funds derived from video lottery terminal revenue for the small, minority, and women-owned business account.

- General funds increase in the fiscal 2012 allowance by a net of \$1.5 million. This is due to an infusion of \$4.5 million in general funds into the Maryland Economic Development Assistance Authority and Fund. The Maryland Industrial Development and Financing Authority also gets an infusion of general funds (\$2.4 million); however, this program receives \$2.6 million less than in the fiscal 2011 working appropriation.
- The fiscal 2012 allowance reflects less federal funds than the fiscal 2011 working appropriation due to a smaller federal grant for Base Realignment and Closure activities.

Personnel Data

	<u>FY 10 Actual</u>	<u>FY 11 Working</u>	<u>FY 12 Allowance</u>	<u>FY 11-12 Change</u>
Regular Positions	238.00	233.00	233.00	0.00
Contractual FTEs	<u>11.95</u>	<u>5.55</u>	<u>13.20</u>	<u>7.65</u>
Total Personnel	249.95	238.55	246.20	7.65

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	11.39	4.89%
Positions and Percentage Vacant as of 12/31/10	11.00	4.72%

- Regular positions remain constant in the fiscal 2012 allowance; however, contractual staff increases by 7.65 full-time equivalents under the Office of Tourism Development and the Maryland State Arts Council.
- There are currently 11 vacancies within the department, very close to the number required to meet budgeted turnover.

Analysis in Brief

Major Trends

Early Positive Results for the Maryland Biotechnology Center: The Maryland Biotechnology 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. Early measurements of the center’s performance show significant interest in the center’s resources by Maryland biotechnology companies.

Evidence of Rebound in the Number of Location Decisions: The department’s Office of Business Development has a mission to create, attract, and retain jobs by facilitating the growth of existing Maryland companies and recruiting new companies to Maryland. The office strives to develop and maintain a pipeline of projects that result in facility location decisions. These location decisions increased in fiscal 2010.

Issues

New Initiatives Aimed at Encouraging Venture Capital Investments and Assisting Small Business: The Department of Business and Economic Development is pursuing several new initiatives and opportunities designed to encourage venture capital investment and to assist small businesses. These include (1) the proposed InvestMaryland program; (2) the federal Small Business Jobs and Credit Act of 2010; and (3) the department’s Small Business Credit Reserve program. **The Department of Legislative Services (DLS) recommends that the department brief the budget committees on its new initiatives. The comments should focus on the costs and benefits of the initiatives and should address any concerns about demand for credit by small businesses.**

Welcome Centers: The recent cost containment initiative has led to the closure of many of the State’s welcome centers that are designed to promote tourism. However, legislative efforts and partnerships with local jurisdictions and nonprofits have created opportunities to retain tourism services at the centers. **DLS recommends that the department brief the budget committees on the status of the State’s welcome centers and on any plans to pursue partnerships with local jurisdictions or nonprofit entities or plans for revenue opportunities at welcome centers.**

Recommended Actions

	<u>Funds</u>
1. Delete the general funds under the Maryland Small Business Development Financing Authority.	\$ 2,500,000
2. Concur with contingent reduction to the Maryland Not-For-Profit Development Fund	
3. Delete general funds under the Maryland Industrial Development Financing Authority.	2,400,000
4. Reduce the general funds under the Maryland Economic Development Assistance Authority and Fund.	2,500,000
5. Reduce grant funds under the Maryland State Arts Council by 10%.	1,198,648
6. Eliminate funding under the Preservation of Cultural Arts program.	1,000,000
Total Reductions	\$ 9,598,648

Updates

Central Business Licensing System: The department is conducting the first phase of the planned Central Business Licensing System (CBL). The system is designed to be a centralized, online system for all business licenses and permits. The CBL will eventually provide businesses with a one-stop shop to complete and submit various applications and permits regardless of agency or type of business.

Report on the Steel Industry: The 2010 *Joint Chairmen's Report* included narrative that required the department, along with the Department of the Environment and the Maryland Energy Administration, to study and report on the financial and technical assistance available to the steel industry. The department submitted its report in February 2011. The report summarized the current condition of the industry on the national and State level and offered recommendations for the support of the industry.

Major Grants: The major grants that are awarded by the department have remained fairly flat in the fiscal 2012 allowance. Approximately \$15.9 million in grant funds is expected to be awarded in fiscal 2012.

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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 divisions include the Office of the Secretary, the Division of Economic Development; the Division of Marketing and Business Development; and the Division of Tourism, Film, and the Arts. The department's mission and goals are supported by these four divisions:

- ***Office of the Secretary:*** The Office of the Secretary provides leadership and direction to the activities of the department and maintains working relationships with State and federal agencies, county and municipal governments, businesses, and organizations. Included in the program are the Office of the Attorney General, Equal Opportunity, and Internal Audits. Also included under the purview of the Secretary is the Maryland Biotechnology Center.
- ***Division of Marketing and Communication:*** This division promotes the State of Maryland throughout the nation as an ideal location to establish new business facilities. Business recruitment teams, specializing in advanced technology, life sciences, financial services, alternative energies, and science and security, promote Maryland using industry-focused business recruitment and marketing strategies.
- ***Division of Business and 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. This division also includes the Offices of International Investment and Trade and Military and Federal Affairs. The division provides access to capital markets through a variety of financing programs, worker training assistance for new and expanding businesses, and funding assistance to local jurisdictions to support infrastructure and economic development efforts.
- ***Division of Tourism, Film, and the Arts:*** This division's mission is to strengthen the State's quality of life and encourage economic development by investing in and promoting Maryland's unique historic, cultural, and natural assets.

Business Assistance Programs

DBED administers several primary business assistance programs. These programs provide resources upon which the Division of Business and Economic Development draws when assembling incentives to help a business expand or locate in Maryland. Following are the five main assistance programs in the operating budget:

- ***Maryland Economic Development Assistance Authority and Fund:*** The Maryland Economic Development Assistance Authority and Fund (MEDAAF) was established by the General Assembly under Chapter 301 of 1999 as a revolving loan fund. The fund provides below market, fixed rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses. Businesses, in particular those in growth industries that are locating or expanding in priority funding areas, are targeted. Funds may be used for property acquisition, construction, or renovation of buildings including tenant improvements and capital equipment.
- ***Maryland Small Business Development Financing Authority:*** This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172 of 2001 broadened the Maryland Small Business Development Financing Authority's (MSBDFa) scope to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria. A private contractor, currently Meridian Management Group, Inc., reviews the financing applications for presentation to the MSBDFa board. MSBDFa has four programs: 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.

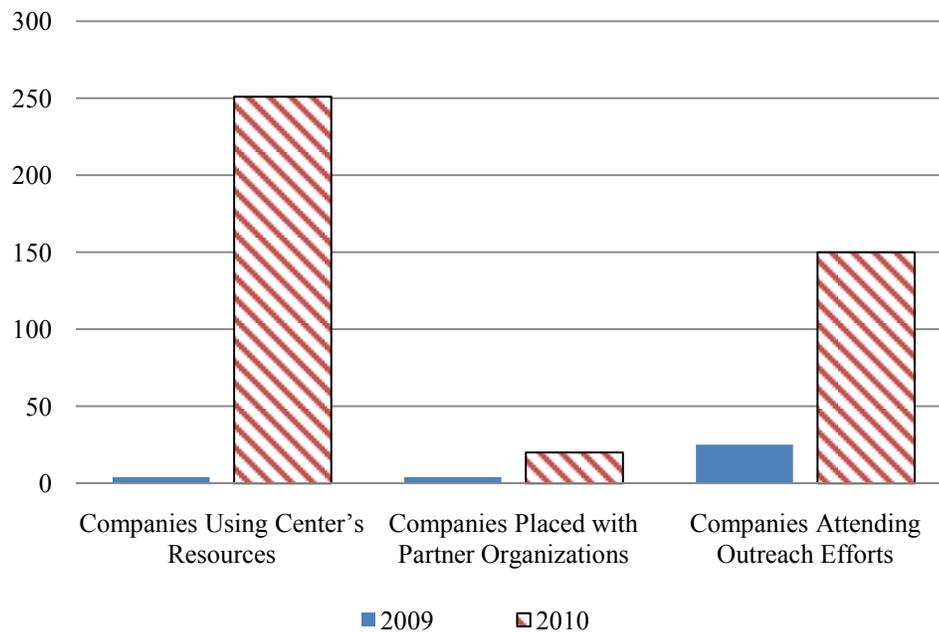
Performance Analysis: Managing for Results

Early Positive Results for the Maryland Biotechnology Center

As part of the Administration's Bio 2020 initiative, the department created the Maryland Biotechnology Center in 2009. 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. Currently, the center has physical locations in Baltimore City and in Montgomery County as well as an online presence. Early measurements of the center's performance show significant interest in the center's resources by Maryland biotechnology companies.

Among other factors, the department measures the number of biotechnologies companies that utilize the center’s resources; the number of companies successfully placed with partner organizations such as universities or incubators; and the number of companies that attend the center’s outreach events. Recent outreach events include a BioBuzz networking event, a Women in Bio celebration; and the BioBreakfast series. **Exhibit 1** shows that after one year of operation, the interest in the center has grown considerably. Further, it appears that expectations for these measures in fiscal 2011 and 2012 are well within reach.

Exhibit 1
Maryland Biotechnology Center
Fiscal 2009-2010



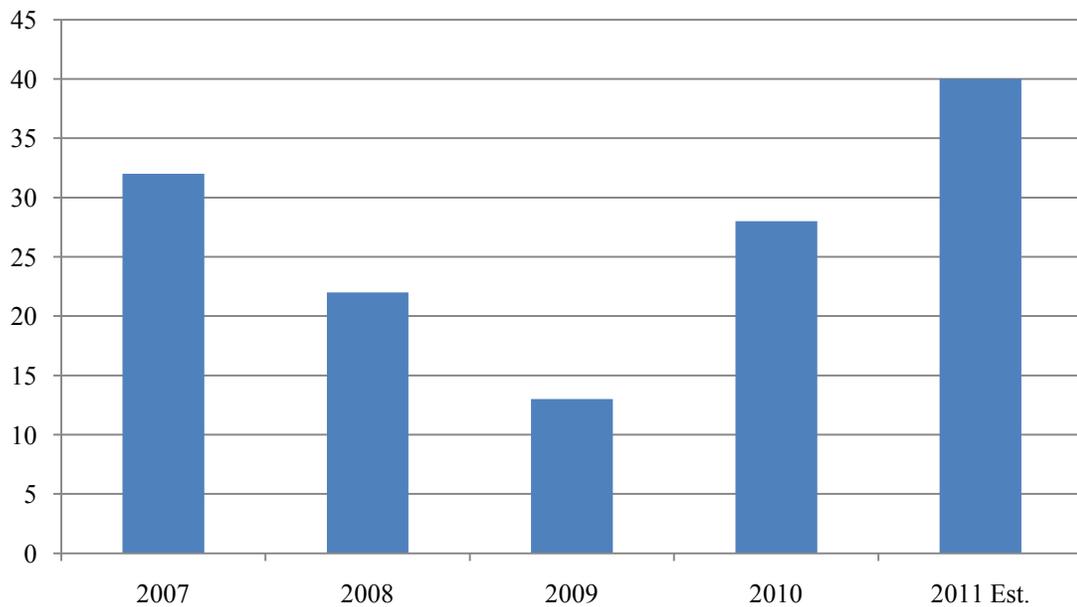
Source: Governor’s Budget Books, Fiscal 2012

Evidence of Rebound in the Number of Location Decisions

The department’s Office of Business Development has a mission to create, attract, and retain jobs by facilitating the growth of existing Maryland companies and recruiting new companies to Maryland. The office strives to develop and maintain a pipeline of projects that result in facility location decisions. The office defines a location decision as a statement by a top-level executive indicating a company’s clear intention to (1) locate a facility with Maryland; or (2) remain or expand within Maryland after formally or informally considering potential locations outside of the State.

Exhibit 2 shows that in fiscal 2007, 32 companies decided to relocate to, remain in, or expand in Maryland. This number fell to 22 in fiscal 2008 and fell again to 13 in fiscal 2009. However, this measure rebounds in fiscal 2010 with 28 facility location decisions. The office holds promotional events to showcase Maryland’s business advantages. The increase in location decisions coincides with a significant increase in these events. Additionally, in 2010 the office began measuring the number of in-state company issues resolved. The decision to begin tracking this measure indicates a renewed focus on helping companies resolve issues. This may have also contributed to the increase in facility location decisions in fiscal 2010.

Exhibit 2
Facility Location Decisions
Fiscal 2007-2011



Source: Governor’s Budget Books, Fiscal 2012

Fiscal 2011 Actions

Proposed Deficiency

The fiscal 2012 allowance includes a negative general fund deficiency of \$200,000 under the Maryland Tourism Development Board. The fiscal 2011 budget bill included language that restricts \$300,000 in general funds under the Tourism Board. The purpose of this restriction is to provide funds to prevent the closure of specified welcome centers across the State. The department was

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allowed to use these funds for welcome centers provided it was able to partner with local jurisdictions or nonprofit organizations to share the costs. The department could not come to terms with a partner organization for several of the welcome centers and, therefore, had to forgo \$200,000 in funding.

The allowance also includes a fiscal 2011 special fund deficiency of \$500,000 to provide funding for one-time capital expenditures in local jurisdictions where electronic bingo machines or electronic tip jar machines are located. The Budget Reconciliation and Financing Act (BRFA) of 2010 established a special fund for these grants and specified that a portion of admission and amusement taxes be used to for this purpose in fiscal 2011 only.

Impact of Cost Containment

Section 44 of the fiscal 2011 budget bill required the Governor to abolish 500 positions in the Executive Branch as of June 30, 2011. The positions and the funds associated with them have been removed from the fiscal 2011 working appropriation. The department's share of the reduction was 3 full-time equivalent positions and \$87,084 in fiscal 2011, which represents an ongoing annualized savings of \$239,694 for employee salary and fringe benefit expenditures. The impact of the loss of these positions is expected to be minimal.

Proposed Budget

After adjusting for across-the-board and contingent reductions, **Exhibit 3** shows that the fiscal 2012 allowance declines by \$7.5 million. The decline in special funds is largely attributable to a change in how one of the department's financing programs is accounted for and does not reflect an actual decline in the program's capacity. General funds are increasing due to an infusion of general funds into MEDAAF.

Impact of Cost Containment

The fiscal 2012 budget reflects several across-the-board actions. In fiscal 2012, DBED's share of the reduction is \$49,857 in general funds, \$3,410 in federal funds, and \$16,464 in special funds for changes in employee health insurance. Reductions contingent upon statutory changes include \$82,520 in general funds, \$5,645 in federal funds, and \$27,245 in special funds for retiree prescription drug benefits and \$146,025 in general funds for retirement benefits. An additional \$398,000 estimated savings will result from the 8 positions abolished under the Voluntary Separation Program.

Exhibit 3
Proposed Budget
Department of Business and Economic Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2011 Working Appropriation	\$56,575	\$43,179	\$1,907	\$195	\$101,855
2012 Allowance	<u>58,378</u>	<u>34,435</u>	<u>1,767</u>	<u>200</u>	<u>94,780</u>
Amount Change	\$1,803	-\$8,744	-\$140	\$5	-\$7,075
Percent Change	3.2%	-20.2%	-7.3%	2.8%	-6.9%
 Contingent Reduction	 -\$278	 -\$169	 -\$9	 -\$1	 -\$457
Adjusted Change	\$1,524	-\$8,912	-\$149	\$5	-\$7,532
Adjusted Percent Change	2.7%	-20.6%	-7.8%	2.4%	-7.4%

Where It Goes:

Personnel Expenses

Salaries due to restoration of furloughs	\$697
Employee and retiree health insurance (net of contingent reductions)	121
Retirement (net of contingent reductions).....	139
Turnover adjustments.....	-195
Other fringe benefit adjustments.....	24

Other Changes

Funds for the Maryland Economic Development Assistance Authority and Fund	3,000
Small, Minority, and Women-Owned Business Account	4,090
Funds for the Preservation of Cultural Arts	500
Contractual staff for tourism and the arts.....	392
Maryland Not-for-Profit Development Fund.....	125
Change in Maryland Small Business Development Financing Authority reporting.....	-12,024
General funds for the Maryland Industrial Development Financing Authority	-2,600
Department of Budget and Management-paid and other communication	-707
Departmentwide travel, printing, and computer services expenses	-364
Grants under Biotechnology Center reduced to fiscal 2010 level.....	-234
Funds for the Enterprise and Challenge Program based on special fund revenues.....	-200
Base Realignment and Closure and other management studies.....	-183

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Where It Goes:

Funds for the Partnership for Workforce Quality	-85
Other	-28
Total	-\$7,532

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

Financial Assistance Programs

Infusion of General Funds for MEDAAF

MEDAAF is the department’s primary and most flexible tool for business financial assistance. The fiscal 2012 allowance includes \$4.5 million in general funds for MEDAAF; the first such infusion of general funds since fiscal 2007. The program has subsisted on its special funds and fund balance.

Exhibit 4 shows the fund balance summary for MEDAAF. Despite the proposed general fund infusion, the fund balance declines considerably between fiscal 2009 and 2012. Factors beyond the level of assistance to businesses are driving this decline. In fiscal 2009 and 2010, the program contributed a total of \$12.0 million to the general fund for the cost containment effort. Additionally, in fiscal 2010, the program transferred \$2.5 million to the MSBDFA program. And finally, as of fiscal 2010, MEDAAF is subsidizing the operations of the Maryland Biotechnology Center in the amount of \$2.1 million to \$2.7 million each year.

The general fund infusion is expected to result in an increase in the level of approved activity under the program. Financial assistance to businesses is expected to increase to \$15 million in fiscal 2012 from \$12 million in fiscal 2011.

Exhibit 4
Department of Business and Economic Development
Maryland Economic Development Assistance Authority and Fund
Fund Balance Worksheet
Fiscal 2009-2012
(\$ in Thousands)

	<u>Actual</u> <u>2009</u>	<u>Actual</u> <u>2010</u>	<u>Est.</u> <u>2011</u>	<u>Est.</u> <u>2012</u>
Beginning Balance	\$45,016	\$37,218	\$21,168	\$10,081
Revenues				
General Funds	\$0	\$0	\$0	\$4,500
Investment Income	2,524	1,151	800	500
Interest Income	1,180	1,045	900	900
Loan Repayments	4,284	6,324	3,000	3,000
Loan Recoveries and Grant Repayments	1,053	373	500	500
Cancelled Prior Year Encumbrances	0	0	0	0
Brownsfield Local Property Tax Cont.	290	260	300	300
Other Income	160	346	10	10
Total Revenues	\$9,491	\$9,499	\$5,510	\$9,710
Total Funds Available	\$54,507	\$46,717	\$26,678	\$19,791
Expenditures				
Encumbrances/Approval Activity	\$8,768	\$14,816	\$12,000	\$15,000
Rescissions of New Approvals	-7,812	-2,673	-1,000	-1,000
Operating Expenses	642	499	580	592
Indirect Expenses	2,658	2,244	2,347	2,456
Maryland Biotechnology Center	240	2,177	2,670	2,613
Transfers to Rural Broadband Fund	3,800	0	0	0
Transfer to Nano-Biotechnology Fund	3,000	0	0	0
Transfer to Maryland Small Business Development Financing Authority	0	2,500	0	0
Prior Period Operating/Indirect Adjustment	-7	-14	0	0
Total Expenditures	\$11,289	\$19,549	\$16,597	\$19,661
Transfer to General Fund	-\$6,000	-\$6,000		
Ending Balance	\$37,218	\$21,168	\$10,081	\$130

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

Source: Governor's Budget Books, Fiscal 2012

General Funds Increase Balance of the Maryland Industrial Development Financing Authority

The Maryland Industrial Development Financing Authority (MIDFA) was created to promote significant economic development by providing support to manufacturing, industrial, and technology businesses. The program does not provide direct loans but insures bonds, loans, and other transactions from private financial institutions. The statute allows the fund to provide insurance at a 5 to 1 exposure rate of the balance in the fund (net of reserves). However, the department advises that anything more than a 2 to 1 leverage could diminish the value of the credit enhancement to the private sector.

Generally, the program does not receive an appropriation, as the balance in the fund is sufficient to provide loan guarantees. In fact, according to the department's fiscal 2010 annual report, the fund balance was \$33.9 million in fiscal 2010, with an insurance exposure of about \$17.5 million. This equates to a .56 to 1 leverage, leaving significant capacity in the program. However, in fiscal 2011, there was a \$5.0 million general fund appropriation to the program. These funds are earmarked under MIDFA for the department's Small Business Credit Recovery Program. The program is designed to increase support to small business lending in an expedited process and to encourage private lending to small businesses. However, to date, the department has approved 18 transactions for a total of \$2.3 million in insurance; significantly less than the \$10.0 million in insurance capacity.

The fiscal 2012 allowance includes \$2.4 million in general funds for MIDFA to add to the already underused capacity of the Small Business Credit Recovery Program. Based on the activity under the program to date, it does not appear that small businesses are prepared to invest significantly during the current economic climate, nor does it appear that financial institutions are overly willing to begin lending to small business.

Level Funding for MSBDFDA Despite Evidence of Decline

MSBDFDA was established to provide financial assistance to economically and socially disadvantaged entrepreneurs. It has since been expanded to provide assistance to all businesses that do not meet the established credit criteria of financial institutions. The program provides four mechanisms of assistance:

- **Contract Financing Program** – provides financial assistance to eligible businesses in the form of direct loans, lines of credit, and loan guaranties.
- **Guaranty Fund Program** – provides financial assistance to eligible businesses in the form of loan guaranties and interest rate subsidies for loans made by financial institutions.
- **Surety Bond Program** – assists eligible businesses in obtaining bid, performance or payment bonds necessary to perform on contracts.

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- **Equity Participation Investment Program** – provides assistance in the form of loans, guaranties, and equity investments for franchising investments, business acquisitions, technology investments, or other small businesses.

The 2010 *Joint Chairmen's Report* (JCR) contains budget narrative that directs the department along with the Department of Budget and Management and the Department of Legislative Services (DLS) to develop a plan to accurately and clearly reflect the annual financial activity under MSBDFEA. There was concern that annual appropriations were artificially inflated and did not accurately reflect the activity under the program's lines of credit. Due to the nature of the financing, the lines of credit were often extended, repaid, and extended again during the course of a fiscal year. Previously, each instance that a line of credit was used, an appropriation was required. However, this overstated the actual pool of available funds.

Representatives from each agency met on multiple occasions from May to August 2010 and determined that, with advice of assistant attorneys general, that even though a line of credit may be extended several times during the fiscal year, an appropriation was only necessary for the amount of the credit lines. A separate appropriation is not necessary for each time funds are lent to a business, repaid, and lent again within a fiscal year.

The fiscal 2012 allowance marks the first budget year that shows the new accounting standard for MSBDFEA. **Exhibit 5** shows the general and special funds for each of the four programs under MSBDFEA. The change is evident by the change in special funds under the Contract Financing Program and, to a lesser extent, the Equity Participation Investment Program. Despite the appearance of a decline in funding, each program under MSBDFEA will have the same level of capacity.

Exhibit 5
Maryland Small Business Development Financing Authority
Fiscal 2010-2012

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Working App.</u>	<u>2012</u> <u>Allowance</u>	<u>2011-2012</u> <u>Change</u>
Contract Financing				
General Funds	\$500	\$500	\$500	\$0
Special funds	7,899	12,530	1,500	-11,030
Guaranty Fund				
General Funds	\$500	500	500	0
Special funds	0	0	0	0
Surety Bond				
General Funds	\$1,382	1,000	1000	0
Special funds	24	0	0	0
Equity Participation Investment				
General Funds	500	500	500	0
Special funds	422	1,994	1,000	-994
Total	11,227	17,024	5,000	-12,024

Source: Department of Business and Economic Development

Small, Minority, and Women-owned Business Account

The statute requires that 1.5% of the proceeds of video lottery terminals at authorized locations across the State be deposited into a Small, Minority, and Women-owned Business account. The account is designed to provide capital investments and loans for small, minority and women-owned businesses primarily in the areas of the State with video lottery terminal facilities. The statute requires the Board of Public Works (BPW) to create the parameters of the program. However, to capitalize on its expertise and staffing experienced with business financial assistance, funds are budgeted within DBED's allowance. The department and BPW are developing a memorandum of understanding (MOU) that will allow the department to administer the program on behalf of BPW. The department plans to issue a request for proposal to seek a program manager that will receive and allocate the program's funds. The allowance includes \$5.9 million in special funds for the program.

Maryland Not-For-Profit Development Center Program

The Maryland Not-For-Profit Development Center Program was created by Chapter 313 of 2008 and is charged with assisting the economic growth and revitalization of nonprofit entities in the State by providing grants for training and technical assistance services. Specific types of assistance include individual consultation and technical assistance to any nonprofit entity that requests the service, training, and the operation of a technical information and data exchange. Funds to support

the program are derived from a surcharge on incorporation fees charged to nonprofit entities. To date, the program has not provided any support to nonprofit entities.

The fiscal 2012 allowance includes \$125,000 for the program. However, the BRFA of 2011 authorizes the transfer of \$250,000 from the Maryland Not-For-Profit Development Center Program Fund to the general fund in fiscal 2011 and \$125,000 from the fund in fiscal 2012. The Maryland Not-For-Profit Development Center Program Fund will essentially be depleted by the end of fiscal 2012.

Tourism and the Arts

The Office of Tourism Development is increasing contractual staff by 6.1 full-time equivalent (FTE) positions, more than doubling the contractual staff. The staff will be responsible for fundraising, managing the development, and marketing for the celebration of the War of 1812 Bicentennial. The allowance reflects an increase of about \$309,000 for this purpose, primarily in special funds. The special funds will be generated by the fundraising efforts of the office.

Similarly, the contractual staff for the Maryland State Arts Council is growing in the fiscal 2012 allowance by 1.6 FTEs. Staff will be responsible for the Maryland Traditions Program, which seeks to sustain traditional arts and culture in the State and for the management of the 9-11 memorial to be installed at the Maryland World Trade Center and the 1812 commemorative art work.

In accordance with the BRFA of 2010, grants under the Maryland Tourism Development Board and under the Maryland State Arts Council remain flat in fiscal 2012. Similarly, the Film Production Wage Credit Program remains flat at \$1 million in fiscal 2012.

The fiscal 2012 allowance includes \$1.0 million for the Preservation of Cultural Arts in Maryland fund, representing a \$0.5 million increase from fiscal 2011. The BRFA of 2011 requires that for fiscal 2012 only, that \$1.0 million derived from the admissions and amusement tax imposed on electronic bingo and tip jar machines be dedicated to the Special Fund for the Preservation of Cultural Arts in Maryland and that the remainder accrue to the general fund.

The Special Fund for Preservation of Cultural Arts in Maryland is a special, nonlapsing fund in DBED that consists of State admissions and amusement tax revenue and any other money accepted for the benefit of the fund. The fund is to be used to provide emergency grants and it may be used only for preventing the closure or termination of cultural arts organizations, including museums, or similar entities in the State. To date, the fund has not been used for its intended purpose. **DLS recommends amending the BRFA of 2011 to transfer to the general fund the remaining \$1 million provided in the allowance for the Preservation of Cultural Arts in Maryland.**

Other Programs

The fiscal 2012 allowance includes \$8 million in general funds for the Maryland Biotechnology Investment Tax Credit Reserve Fund. In the fiscal 2011 budget bill, language was added that restricted \$2 million in stem cell research funds, under the Maryland Technology

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Development Corporation, to be used to provide tax credits under the DBED biotechnology tax credit program. In July 2010, a budget amendment was approved to transfer these funds, increasing the program from \$6 million to \$8 million. The fiscal 2012 allowance is, therefore, flat funded.

The allowance also includes \$578,000 in general funds for the continuation of the Central Business Licensing project. This matches the amount of funds provided in fiscal 2011 for the planning and analysis of the project which is designed to create a centralized, online system for all business licenses and permits. This issue is discussed in greater detail under the Updates section of this analysis.

Issues

1. New Initiatives Aimed at Encouraging Venture Capital Investments and Assisting Small Business

The department is pursuing several new initiatives and opportunities designed to encourage venture capital investment and to assist small businesses. These include (1) the proposed InvestMaryland program; (2) the federal Small Business Jobs and Credit Act of 2010; and (3) the department's Small Business Credit Reserve program.

InvestMaryland

The Administration has introduced Senate Bill 180/House Bill 173 to create the InvestMaryland program. This legislation creates a State-supported venture capital program and also increases funding for the department's Enterprise Fund and MSBDFA. These programs will receive an estimated \$99.4 million in total funding from fiscal 2012 through 2014, which is provided through the creation of a tax credit against the insurance premium tax for insurance companies that make qualified contributions to the program. The department can award a maximum of \$142.0 million in tax credits, which can be claimed beginning in tax year 2014.

The amount of designated capital proposed by insurance companies cannot be less than 70.0% of the requested amount of tax credits. The cash or designated capital received from insurance companies is to be deposited into the Enterprise Fund within DBED in three annual equal installments beginning on January 1, 2012. Of the money deposited in the Enterprise Fund, 37.5% will be retained by the fund, 50.0% will be distributed to eligible private venture firms, and 12.5% will be distributed to MSBDFA.

If qualified investments made under the program are successful, money will be returned to the State. Qualified investments are fully at risk, however, and the State will not receive returns if investments fail. Money provided to the Enterprise Fund is to fund the making of investments to businesses consistent with the existing policies and procedures of the fund. This program provides capital through equity purchases for start-up companies that are developing innovative technologies. Money provided to MSBDFA is to be invested in qualified businesses consistent with the existing policies and procedures of the authority. Specifically, its scope is to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria.

The legislation specifies the type of business that is eligible to receive assistance under the new program. At the time of the first investment, a business must (1) have its principal business operations in the State; (2) agree to use the investment primarily to establish or support business operations in the State; (3) have no more than 250 employees; and (4) not be primarily engaged in retail sales; real estate development; the business of insurance, banking, or lending; or professional services by accountants, attorneys, or physicians.

Federal Small Business Jobs and Credit Act of 2010

The Federal Small Business Jobs and Credit Act of 2010 was enacted to help unlock credit and provide targeted tax cuts for small businesses. Under a component of the Act entitled the State Small Business Credit Initiative, states are offered the opportunity to apply for federal funds for programs that partner with private lenders to extend greater credit to small businesses.

States are required to demonstrate a minimum of \$10 in new private lending for every \$1 in federal funding. It is expected that Maryland would qualify for approximately \$23 million in federal funding under the program. The \$23 million funding commitment from the federal government, therefore, is expected to support \$230 million in additional private lending. The federal program allows states to build upon existing, successful state-level small business lending programs.

In addition to the State Small Business Credit Initiative, the Small Business Jobs Act includes a number of other provisions to support small business job creation. The Act includes eight new small business tax cuts; creates a \$30 billion Small Business Lending Fund to help small and community banks provide new loans to small businesses; extends and expands existing Small Business Administration loan programs; and delivers other benefits for small businesses.

Small Business Credit Recovery Program

Finally, the department is initiating the Maryland Small Business Credit Recovery Program. The department has identified that small businesses are increasingly finding it difficult to obtain private financing in the current market. To address the problem, DBED recommends taking advantage of the flexibility in an existing State loan guaranty program, MIDFA. MIDFA does not provide direct loans but insures bonds, loans, and other types of transactions from financial institutions. The department's initiative will allow increased support to small business lending in an expedited process while maintaining reasonable credit quality. The capabilities of MIDFA for small business include:

- **Certified Lender's Program:** This allows approved banks to apply for up to a \$50,000 MIDFA guaranty (not to exceed 50% of the loan) based solely on the bank's standard underwriting.
- **Rapid Response Program:** This provides a 48-hour approval turnaround to bank underwriting on credits needing up to a \$250,000 guaranty (not to exceed 25% of the loan).

The supplemental budget for fiscal 2011 included an additional \$5.0 million for MIDFA to specifically dedicate to small businesses under the credit recovery program. An additional \$2.4 million is provided for this purpose in the fiscal 2012 allowance. However, as discussed earlier in this analysis, the department has not been able to fulfill the capacity available under the program. Based on the activity under the program to date, it does not appear that small businesses are prepared to invest significantly during the current economic climate, nor does it appear that financial institutions are overly willing to begin lending to small business.

DLS recommends that the department brief the budget committees on its new initiatives. The comments should focus on the costs and benefits of the initiatives and should address any concerns about demand for credit by small businesses.

2. Welcome Centers

The State operates welcome centers and rest areas at major gateways and strategic locations across the State. The Maryland Department of Transportation is responsible for the rest areas, and DBED provides operating funds and staff for the welcome centers as a means to promote tourism. The cost containment initiative of 2010 resulted in the closure of 6 of the 12 welcome centers in the State. The fiscal 2011 budget, as introduced, assumed the closure of an additional four centers.

In an effort to prevent the additional closures, the fiscal 2011 budget bill included language that restricted \$300,000 in general funds under the department's Tourism Development Board. The purpose of the language was to provide funds to keep six specified centers open contingent on the financial participation of the local jurisdictions. The language asked for MOUs between the department and the local jurisdictions that provide for an equal cost sharing agreement for the expenses of the centers.

In August 2010, the department submitted evidence of an MOU with Worcester County to maintain the US-13 welcome center and an MOU with Charles County to maintain the Crain Memorial Highway welcome center. In each case, the county is matching the State investment of \$50,000 as envisioned by the budget language to keep these centers operational. However, to date, the department has been unable to reach agreements with other jurisdictions for the remaining centers. The negative deficiency in the fiscal 2012 allowance reflects this fact.

Current Status of Welcome Centers

The department's fiscal 2012 allowance for its Office of Tourism Development includes funds for the partial operation of four welcome centers without any local participation. These include centers on I-95 North and South which are open each week Thursday through Sunday. Also under the State auspices are the South Mountain welcome centers on I-70 East and West, open Friday through Sunday.

An additional two centers are open as a result of the fiscal 2011 budget language, and the expenses are shared between the State and the local jurisdiction. The welcome center on US-13 in Pocomoke is open Thursday through Monday. The county is pursuing mechanisms for the center to be revenue generating such as renting out exhibit panels. Similarly, the Crain Memorial welcome center is operation from Sunday through Saturday. It too has potential for generating its own revenue through the installation of an ATM machine which will generate transaction fees.

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Finally, the Mason Dixon welcome center in Emmitsburg may reopen under the management of a nonprofit organization. The department is working with the nonprofit on the MOU to share the responsibilities of the center.

DLS recommends that the department brief the budget committees on the status of the State’s welcome centers and on any plans to pursue partnerships with local jurisdictions or nonprofit entities or plans for revenue opportunities at welcome centers.

Recommended Actions

- | | <u>Amount
Reduction</u> | |
|--|------------------------------------|----|
| 1. Delete the general funds under the Maryland Small Business Development Financing Authority (MSBDFA). Funds available for small and minority-owned business are increasing dramatically due to revenue related to the video lottery terminal program. Additionally, MSBDFA will benefit significantly from the enactment of the proposed InvestMaryland program. | \$ 2,500,000 | GF |
| 2. Concur with the following language to the special fund appropriation:

, provided that \$125,000 of this appropriation shall be reduced contingent upon the enactment of legislation authorizing the transfer of these funds to the General Fund. | | |

Explanation: The fiscal 2012 budget bill as introduced includes a \$125,000 contingent reduction to reduce funding for the Maryland Not-For-Profit Development Fund contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2011 to transfer the funds to the general fund. The action concurs with that contingent reduction.

- | | <u>Amount
Reduction</u> | |
|---|------------------------------------|----|
| 3. Delete general funds under the Maryland Industrial Development Financing Authority. There is significant excess capacity under the program and as such, additional general funds are not warranted. | 2,400,000 | GF |
| 4. Reduce the general funds under the Maryland Economic Development Assistance Authority and Fund. The program should reduce its planned activity and subsist on less general funds and on its special fund revenues. | 2,500,000 | GF |
| 5. Reduce general fund grant funds under the Maryland State Arts Council by 10% as a cost containment measure. The Arts Council only nominally contributed to the cost containment reductions of the | 1,198,648 | GF |

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last several years. Further, this action will also result in out-year savings as the mandated growth rate will apply to a reduced appropriation.

6. Eliminate funding under the Preservation of Cultural Arts program. An amendment to the Budget Reconciliation and Financing Act of 2011 is recommended to transfer these funds to the general fund. 1,000,000 SF

Total Reductions \$ 9,598,648

Total General Fund Reductions \$ 8,598,648

Total Special Fund Reductions \$ 1,000,000

Updates

1. Central Business Licensing System

The fiscal 2011 budget bill included language that withheld \$578,000 of the general fund appropriation within DBED’s Office of Administration and Technology. The funds were meant to conduct the first phase of the department’s Central Business Licensing (CBL) project. The CBL project is designed to create a centralized, online system for all business licenses and permits. The CBL will eventually provide businesses with a one-stop shop to complete and submit various applications and permits regardless of agency or type of business.

The funds were included in the supplemental budget and, therefore, not subject to full legislative scrutiny. As such, the following language was added.

, provided that this appropriation made for the purpose of conducting the first phase of the Central Business Licensing Project may not be expended until the Department of Business and Economic Development and the Department of Information Technology submit a report to the budget committees detailing specific plans for the project including the scope of the project, potential costs, expected benefits, and the expected timeline for implementation. If appropriate, the report shall include an information technology project request form. The budget committees shall have 45 days to review and comment following receipt of the report. Funds restricted for this purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

The department submitted its report in August 2010. The report, as submitted by the department, details the plans for the new system. The system will be designed to consolidate information regarding over 400 State programs to issue permits, licenses, registrations, certifications, or other type of State approval to conduct business. The report identifies 22 State departments or offices that have some stake in the project and some involvement in allowing businesses to operate in the State. In September 2010, the budget chairmen approved releasing the funds with the stipulation that no further funds be spent on the project until the department submits a consultant’s report on the project and a plan for funding the remainder of the project.

Since the issuance of the report and the release of funds, the department has procured consulting services and has formed an executive steering committee comprised of representatives from seven State agencies. The consultant is conducting surveys and interviews with the various stakeholder agencies and will review the results with the steering committee. The consultant will analyze the survey results and will assess the current status of State resources supporting the issuing of business permits, licenses, certifications, and registrations and will make recommendations for a technological solution to make interaction with the State easier for businesses and entrepreneurs. This phase of the project should be completed by June 2011.

2. Report on the Steel Industry

The 2010 JCR included narrative that required the department, along with the Department of the Environment and the Maryland Energy Administration (MEA), to study and report on the financial and technical assistance available to the industry. The department submitted its report in February 2011.

The report summarized the current state of the industry across the nation and within Maryland. According to the report, industry analysts are cautiously optimistic. However, the report acknowledges the decline of the industry over the last decade or so in Maryland. The steel industry in Maryland employs approximately 5,900 people, representing approximately 5.0% of Maryland's manufacturing workforce. The rate of employment decline in Maryland has been slightly lower than the national percentage. From 2001-2009, Maryland's steel employment loss was 26.7%, compared with 33.8% nationally. Maryland steel wages declined by 19.1% during the same period.

While the State cannot override industry and market forces, the report points out that the State can work with steel companies to help navigate global markets and manage their specific facility needs. The report makes several recommendations. For example, DBED should monitor and support smaller steel operations throughout the State, and employ the existing tools it has at hand to assist businesses in this industry. They include training funds for workers (Department of Labor, Licensing, and Regulation), assistance with debt financing, and programs to accelerate energy efficiencies and innovation in production processes (MEA and the Maryland Industrial Partnerships). Organizations such as the Regional Manufacturing Institute, which is focusing on encouraging innovation and "lean" manufacturing in Maryland's manufacturing sector, are also critical in any collaboration with the steel industry.

The report also calls special attention to the Severstal Sparrows Point facility. According to the report, the State's primary objective for Sparrows Point should be to create conditions that support the continued operation of the facility for steel production, under new ownership. The State and county can most effectively affect the competitiveness of the site once a new owner is identified and in place.

3. Major Grants

The department awarded \$16.3 million in grants in fiscal 2010 as shown in **Exhibit 6**. The exhibit also shows that another \$16.3 million is expected in fiscal 2011. A slight decrease is expected in fiscal 2012. However, the vast majority of grants are flat funded as directed under the prior year's Budget Reconciliation and Financing Act.

Exhibit 6
Department of Business and Economic Development
Summary of Selected Grants
Fiscal 2010-2012

	<u>Actual 2010</u>	<u>Appropriation 2011</u>	<u>Allowance 2012</u>
Office of the Secretary			
Office of International Trade and Development			
Maryland Israel Development Corp	\$139,808	\$139,808	\$139,808
World Trade Center Institute	174,962	174,962	174,962
Export MD – Small Business Foreign Trade Grants	100,000	100,000	100,000
Military/Federal and BRAC Assistance			
Southern MD Navy Alliance	26,334	26,334	26,334
Army Alliance	26,333	26,333	26,333
Montgomery County – White Oak	15,333	15,333	15,333
Fort Meade Alliance	26,334	26,334	26,334
Fort Dietrick Alliance	21,583	21,583	21,583
Maryland Maritime Alliance	28,833	28,833	28,833
Indian Head Alliance	21,583	21,583	21,583
Andrews Air Force Base, Business Roundtable of Prince George’s County	26,333	26,333	26,333
Army Alliance Statewide BRAC Support	41,334	41,334	41,334
New Biotech Grant Assistance	1,903,946	1,903,946	1,670,224
Subtotal	\$2,552,716	\$2,552,716	\$2,318,994
Division of Marketing and Business Development			
Workforce Development and Coordination			
Partnership for Workforce Quality	250,000	250,000	165,000
Governor’s Workforce Investment Board	25,624	25,624	25,624
Small Business			
Small Business Development Center/University of Maryland – PTAP	135,000	135,000	135,000
University of Maryland – SBDC	85,400	85,400	85,400
Community Development			
Appalachian Regional Commission	15,269	15,269	15,269
Tri-County Council of Western Maryland	73,500	73,500	73,500
Tri-County Council of Southern Maryland	73,500	73,500	73,500
Mid-Shore Regional Council	73,500	73,500	73,500
Tri-County Council Lower Shore	73,500	73,500	73,500

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	<u>Actual 2010</u>	<u>Appropriation 2011</u>	<u>Allowance 2012</u>
Upper Shore Regional Council	73,500	73,500	73,500
University of Baltimore – Entrep. Opport.	40,000		
Technology Development			
Technology Council of Maryland	62,333	62,333	62,333
Greater Baltimore Technology Council	62,333	62,333	62,333
Econ. Alliance of Greater Baltimore	62,334	62,334	62,334
University of Maryland – MTES	35,420	35,420	35,420
Subtotal	\$1,141,213	\$1,101,213	\$1,016,213
Division of Tourism, Film, and the Arts			
Capital Region USA, Inc.	240,000	239,500	239,500
Maryland State Arts Council Grants *			
Baltimore Symphony Orchestra	1,658,129	1,438,806	
The Walters Art Gallery	951,233	876,344	
The Baltimore Museum of Art	808,183	862,228	
Baltimore Clayworks	72,550	73,047	
Center Stage Associates, Inc.	484,792	472,239	
Baltimore Opera Company, Inc.	-		
Maryland – National Capital Park and Planning	230,921	238,440	
American Visionary Art Museum, Inc.	135,438	166,715	
Olney Theater Center for the Arts	199,007	214,683	
Round House Theater, Inc.	226,397	185,908	
Maryland Hall for the Creative Arts	103,560	108,414	
Strathmore Hall Arts Center	471,546	474,471	
Maryland Symphony Orchestra	75,644	74,477	
Jewish Community Center of Washington	34,461	32,947	
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	294,288	289,617	
Liz Lerman Dance Exchange	94,003	84,379	
Baltimore's Festival of the Arts, Inc.	64,926	52,930	
Jewish Community Center of Balto./Gordon Center	37,884	32,337	
Univ. of MD Smith Performance Arts Center at MD	342,551	287,890	
Nat'l. Chamber Orchestra Society, Inc./Nat'l. Philharmonic	69,748	78,516	
Everyman Theatre Inc.	104,734	96,175	
Academy Art Museum	74,086	63,458	
Annapolis Symphony Orchestra	66,516	65,098	
Class Acts Arts, Inc.	80,682	84,609	
Washington County Museum of Fine Arts	68,578	37,759	

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	<u>Actual</u> <u>2010</u>	<u>Appropriation</u> <u>2011</u>	<u>Allowance</u> <u>2012</u>
The Writer’s Center	55,789	59,695	
Avalon Foundation Inc.	63,039	79,250	
The Ward Museum of Wildfowl Art	60,997	66,872	
Young Audiences of Maryland Inc.	67,524	73,779	
Grants to All Other Organizations	1,928,740	1,946,027	
<i>Subtotal – Grants to Arts Organizations*</i>	<i>\$9,361,967</i>	<i>\$9,261,132</i>	<i>\$9,181,668</i>
Community Arts Development	2,138,133	2,103,572	2,138,140
Artists in Education	634,192	758,000	738,000
Individual Artists and Other Programs	262,000	250,000	300,000
Total – Arts Council	\$12,396,292	\$12,372,704	\$12,357,808
Total DBED Grants	\$16,330,221	\$16,266,133	\$15,932,515

BRAC: Base Realignment and Closure
 DBED: Department of Business and Economic Development
 MTES: Maryland Technology Extension Service
 PTAP: Procurement Technical Assistance Program
 SBCE: Small Business Development Center

* The final distribution of Maryland State Arts Council grants to arts organizations for fiscal 2012 is not known at this time.

Source: Department of Business and Economic Development

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2010					
Legislative Appropriation	\$54,755	\$49,466	\$1,577	\$100	\$105,898
Deficiency Appropriation	0	0	338	0	338
Budget Amendments	0	821	0	200	1,021
Cost Containment	-7,797	-334	0	0	-8,131
Reversions and Cancellations	0	-13,280	-93	-100	-13,473
Actual Expenditures	\$46,958	\$36,673	\$1,822	\$200	\$85,653
Fiscal 2011					
Legislative Appropriation	\$54,575	\$43,179	\$1,907	\$195	\$99,855
Budget Amendments	2,000	0	0	0	2,000
Working Appropriation	\$56,575	\$43,179	\$1,907	\$195	\$101,855

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

Fiscal 2010

The original fiscal 2010 appropriation was reduced considerably due to cost containment and to cancelations and reversions of funds at year's end.

The fiscal 2010 cost containment initiative reduced the department's original appropriation by over \$8.1 million. During this fiscal year, the Maryland Tourism Board was reduced by \$2.6 million in general funds. Tourism was also affected by the closure of five welcome centers across the State, saving over \$681,000 in general funds for the fiscal year. Over \$1.1 million in economic development grants were eliminated impacting such organizations as the University of Maryland, College Park military alliances, regional economic development councils, and the University of Baltimore. Most of the remaining reductions resulted from various operating savings and the employee furlough.

Budget amendments increased the original appropriation by \$821,222 in special funds and \$200,000 in reimbursable funds. The special funds increased for grants (\$250,000) under the department's Partnership for Workforce Quality. An additional budget amendment increased special funds by \$571,222 for the Maryland Tourism Board for the purpose of radio and print advertising in preparation for the summer travel season. The funds were made available from the Maryland Tourism Development Board Fund which earns revenues through the sale of advertising space in state-published travel publications. The reimbursable funds increased due to a transfer of funds from the Maryland Stadium Authority to fund the department's Office of Sports Marketing.

Over \$13.0 million in special funds were canceled at year's end. This is due, in large part, to \$8.7 million in canceled funds under MSBDFA. The fund was not able to issue as much financial assistance as it expected under its line of credit program. Additionally, over \$2.6 million in special funds were canceled under MEDAAF. Again, this was due to less than expected financial assistance for businesses. The remaining special funds were canceled in a variety of programs due to lower expenses such as marketing and information technology expenses.

Fiscal 2011

In the fiscal 2011 budget bill, language was added that restricted \$2 million in stem cell research funds, under the Maryland Technology Development Corporation, to be used to provide tax credits under the Maryland Biotechnology Investment Tax Credit Reserve Fund. In July 2010, a budget amendment was approved to transfer these funds as described in the language.

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

<u>Object/Fund</u>	<u>FY 10 Actual</u>	<u>FY 11 Working Appropriation</u>	<u>FY 12 Allowance</u>	<u>FY 11 - FY 12 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	238.00	233.00	233.00	0.00	0%
02 Contractual	11.95	5.55	13.20	7.65	137.8%
Total Positions	249.95	238.55	246.20	7.65	3.2%
Objects					
01 Salaries and Wages	\$ 21,371,644	\$ 20,955,846	\$ 22,073,384	\$ 1,117,538	5.3%
02 Technical and Spec. Fees	580,091	300,380	692,482	392,102	130.5%
03 Communication	700,452	1,246,885	539,564	-707,321	-56.7%
04 Travel	311,939	572,231	449,028	-123,203	-21.5%
06 Fuel and Utilities	31,127	29,481	23,836	-5,645	-19.1%
07 Motor Vehicles	295,520	314,582	288,025	-26,557	-8.4%
08 Contractual Services	7,422,250	8,602,914	8,779,050	176,136	2.0%
09 Supplies and Materials	221,468	308,227	239,536	-68,691	-22.3%
10 Equipment – Replacement	277,136	15,150	14,150	-1,000	-6.6%
11 Equipment – Additional	41,203	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	28,385,296	32,891,975	36,927,487	4,035,512	12.3%
13 Fixed Charges	2,315,509	2,394,119	2,353,429	-40,690	-1.7%
14 Land and Structures	23,699,075	34,223,528	22,400,000	-11,823,528	-34.5%
Total Objects	\$ 85,652,710	\$ 101,855,318	\$ 94,779,971	-\$ 7,075,347	-6.9%
Funds					
01 General Fund	\$ 46,958,272	\$ 56,574,992	\$ 58,377,806	\$ 1,802,814	3.2%
03 Special Fund	36,672,573	43,178,909	34,435,390	-8,743,519	-20.2%
05 Federal Fund	1,821,865	1,906,903	1,766,775	-140,128	-7.3%
09 Reimbursable Fund	200,000	194,514	200,000	5,486	2.8%
Total Funds	\$ 85,652,710	\$ 101,855,318	\$ 94,779,971	-\$ 7,075,347	-6.9%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.

Fiscal Summary
Department of Business and Economic Development

<u>Program/Unit</u>	<u>FY 10 Actual</u>	<u>FY 11 Wrk Approp</u>	<u>FY 12 Allowance</u>	<u>Change</u>	<u>FY 11 - FY 12 % Change</u>
0A Department of Business and Economic Development	\$ 11,170,295	\$ 12,666,860	\$ 12,774,664	\$ 107,804	0.9%
0E Division of Marketing	3,379,354	3,116,518	3,182,394	65,876	2.1%
0F Division of Financial Assistance Programs	47,683,127	60,289,669	52,263,366	-8,026,303	-13.3%
0G Division of Tourism and Promotion	23,419,934	25,782,271	26,559,547	777,276	3.0%
Total Expenditures	\$ 85,652,710	\$ 101,855,318	\$ 94,779,971	-\$ 7,075,347	-6.9%
General Fund	\$ 46,958,272	\$ 56,574,992	\$ 58,377,806	\$ 1,802,814	3.2%
Special Fund	36,672,573	43,178,909	34,435,390	-8,743,519	-20.2%
Federal Fund	1,821,865	1,906,903	1,766,775	-140,128	-7.3%
Total Appropriations	\$ 85,452,710	\$ 101,660,804	\$ 94,579,971	-\$ 7,080,833	-7.0%
Reimbursable Fund	\$ 200,000	\$ 194,514	\$ 200,000	\$ 5,486	2.8%
Total Funds	\$ 85,652,710	\$ 101,855,318	\$ 94,779,971	-\$ 7,075,347	-6.9%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.