

**T00**  
**Department of Business and Economic Development**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$55,990	\$58,733	\$57,977	-\$756	-1.3%
Contingent & Back of Bill Reductions	0	0	-1,345	-1,345	
<b>Adjusted General Fund</b>	<b>\$55,990</b>	<b>\$58,733</b>	<b>\$56,632</b>	<b>-\$2,101</b>	<b>-3.6%</b>
Special Fund	26,724	36,626	57,718	21,092	57.6%
<b>Adjusted Special Fund</b>	<b>\$26,724</b>	<b>\$36,626</b>	<b>\$57,718</b>	<b>\$21,092</b>	<b>57.6%</b>
Federal Fund	1,984	6,513	2,147	-4,365	-67.0%
<b>Adjusted Federal Fund</b>	<b>\$1,984</b>	<b>\$6,513</b>	<b>\$2,147</b>	<b>-\$4,365</b>	<b>-67.0%</b>
Reimbursable Fund	698	199	1,169	970	486.4%
<b>Adjusted Reimbursable Fund</b>	<b>\$698</b>	<b>\$199</b>	<b>\$1,169</b>	<b>\$970</b>	<b>486.4%</b>
<b>Adjusted Grand Total</b>	<b>\$85,397</b>	<b>\$102,070</b>	<b>\$117,666</b>	<b>\$15,596</b>	<b>15.3%</b>

- The fiscal 2013 allowance increases by approximately \$15.6 million, primarily due to the increase in special funds related to the InvestMaryland initiative.
- Contingent reductions decrease general funds by \$1.3 million, specifically related to the Maryland Tourism Board and the Maryland State Arts Council.
- Federal funds decrease by over \$4.3 million in the fiscal 2013 allowance. This is primarily due to the first installment of the federal Small Business Credit Initiative Act of 2010 in fiscal 2012. A second installment has not yet been budgeted. Conversely, reimbursable funds are increasing in the allowance. These funds are provided from the State Highway Administration (SHA) to the Maryland Tourism Board in order to promote the State's scenic byways related to the War of 1812 Bicentennial.

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

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***Personnel Data***

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	<b><u>FY 11 Actual</u></b>	<b><u>FY 12 Working</u></b>	<b><u>FY 13 Allowance</u></b>	<b><u>FY 12-13 Change</u></b>
Regular Positions	233.00	225.00	227.00	2.00
Contractual FTEs	<u>9.93</u>	<u>13.60</u>	<u>15.90</u>	<u>2.30</u>
<b>Total Personnel</b>	<b>242.93</b>	<b>238.60</b>	<b>242.90</b>	<b>4.30</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	8.87	3.94%
Positions and Percentage Vacant as of 12/31/11	16.00	7.11%

- The fiscal 2013 allowance reflects the increase of 2.0 full-time regular positions. The new program manager and financial analyst will be responsible for the InvestMaryland initiative.
- The allowance also reflects the increase of 2.3 contractual full-time equivalent positions. This is primarily to work on the Administration’s cyber and space sector economic development initiative.

## *Analysis in Brief*

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### Major Trends

***ExportMD Program Increases Value of Small Business Exports:*** The department's Office of International Trade and Investment aims to promote the export efforts of Maryland businesses and to increase the dollar value of international sales transactions. This is achieved, in part, through grants to small businesses to reimburse expenses related to international marketing efforts. The value of grantee exports increased significantly in fiscal 2011.

***Few Jobs Attributable to Biotechnology Tax Credit:*** The Maryland Biotechnology Investment Tax Credit program seeks to encourage private investment in seed and early stage biotechnology companies. The program's performance measures show that, in fiscal 2011, the program had a private to State investment of approximately 2 to 1 and created 21 new jobs.

### Issues

***Progress of InvestMaryland:*** Chapter 409 of 2011 created the InvestMaryland program, designed to generate venture investment capital by auctioning premium tax credits to insurance companies. The proceeds are to be realized in June 2012. The fiscal 2013 allowance reflects the proceeds in the Maryland Enterprise Fund and the Maryland Small Business Development Financing Authority. **The Department of Legislative Services (DLS) recommends that the department brief the budget committees on the progress of the InvestMaryland program and also describe how it will have the capacity to invest the influx of funds over the next three fiscal years.**

***Maryland Made Easy:*** Maryland Made Easy is an initiative aimed at making it easier for business to interact with State government. It includes (1) fast track project reviews; (2) regulatory reform; (3) a central business licensing system, and (4) new SHA processing. The department is responsible for coordinating the effort, especially in regards to the fast track process and the central business licensing project. **DLS recommends that the department comment on the progress of the Maryland Made Easy initiative, and specifically on the minimal interest in the Fast Track program.**

***Legislative Audit Shows Lack of Proper Documentation for Tax Credits:*** The Office of Legislative Audits released its audit for the department in February 2012. Among the four findings was the fact that, in the majority of cases, the department did not require applicants for the One Maryland Tax Credit to document related project costs. **DLS recommends that the department brief the budget committees on the actions it has taken to address the audit's findings.**

**Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce the increase in general funds for out-of-state travel.	\$78,440
2. Reduce funds for feasibility study under the Maryland Small Business Development Financing Authority.	23,900
3. Delete funds for the new space business incubator initiative.	224,285
4. Reduce general funds under the Maryland Biotechnology Investment Tax Credit Reserve Fund.	2,000,000
5. Delete the general funds from the Maryland Economic Development Assistance Authority and Fund.	4,500,000
6. Strike the general fund reduction to the Maryland Tourism Development Board that is contingent on the Budget and Reconciliation Act of 2012.	
7. Reduce general funds under the Maryland Tourism Development Board.	1,000,000
8. Reduce fiscal 2013 grant funds for the War of 1812 celebration.	1,000,000
9. Strike the general fund reduction to the Maryland State Arts Council that is contingent on the Budget Reconciliation and Financing Act of 2012.	
10. Reduce the increase in funds for the Maryland State Arts Council.	344,703
11. Reduce the fiscal 2012 deficiency for the War of 1812 celebration.	1,000,000
<b>Total Reductions to Fiscal 2012 Deficiency Appropriation</b>	<b>\$1,000,000</b>
<b>Total Reductions to Allowance</b>	<b>\$9,171,328</b>

## **Updates**

***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.

***Major Grants:*** The major grants that are awarded by the department are decreasing slightly in the fiscal 2013 allowance. Approximately \$16.6 million in grant funds is expected to be awarded in fiscal 2013.

*T00 – Department of Business and Economic Development*

**T00**  
**Department of Business and Economic Development**

***Operating Budget Analysis***

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**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 Business and 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 are located 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 (BRAC) 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**

### **ExportMD Program Increases Value of Small Business Exports**

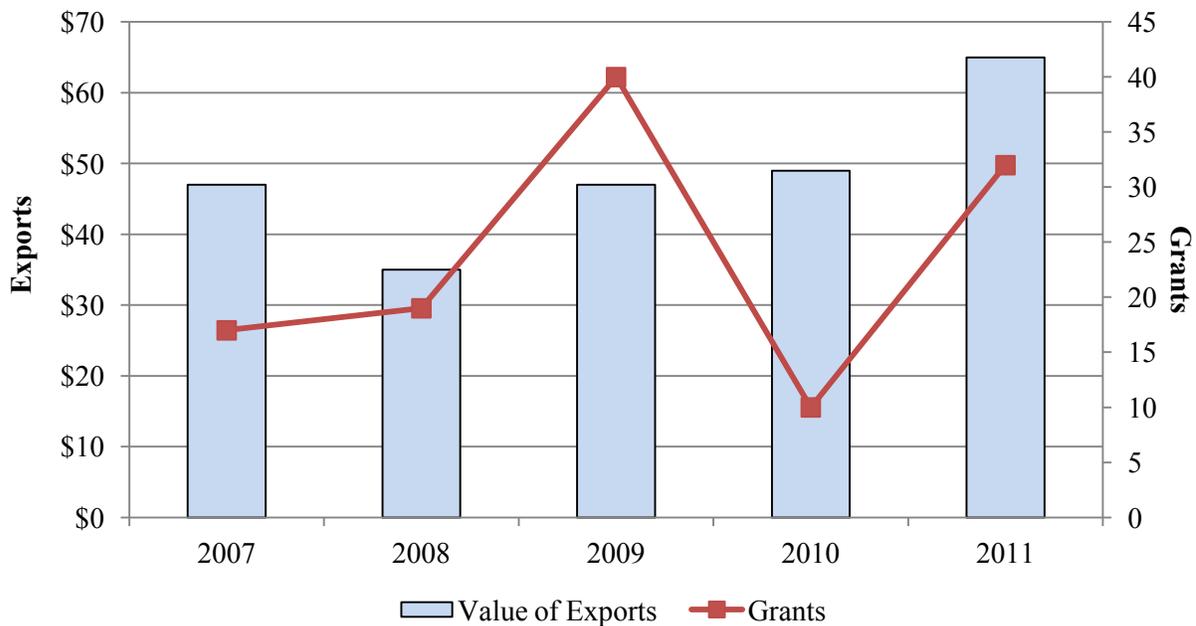
The department's Office of International Trade and Investment aims to promote the export efforts of Maryland businesses and to increase the dollar value of international sales transactions. The office has 10 overseas offices, 8 of which are funded by contingency contracts. The contractors in those offices only receive payment if they succeed in increasing foreign trade.

Another means to encourage international trade is the office's ExportMD program. This program provides \$5,000 grants to Maryland companies to reimburse expenses associated with international marketing efforts. Such expenses include market research, trade show fees, translation

of brochures, airfare, and website development. The department then tracks the value of private sector export sales that result from departmental assistance under the program.

**Exhibit 1** shows the value of the private sector sales from Maryland companies as compared to the number of grants awarded under the ExportMD program. The number of grants fell significantly in fiscal 2010. However, the value of the exports remained steady.

**Exhibit 1**  
**Private Sector Exports and ExportMD Grants**  
**Fiscal 2007-2011**  
**(\$ in Millions)**



Source: Governor’s Budget Books: Fiscal 2010-2011

The department received over \$600,000 from the U.S. Small Business Administration to supplement the ExportMD program in fiscal 2012. The department will be able to increase the number of grants and to increase the value of each grant to \$10,000.

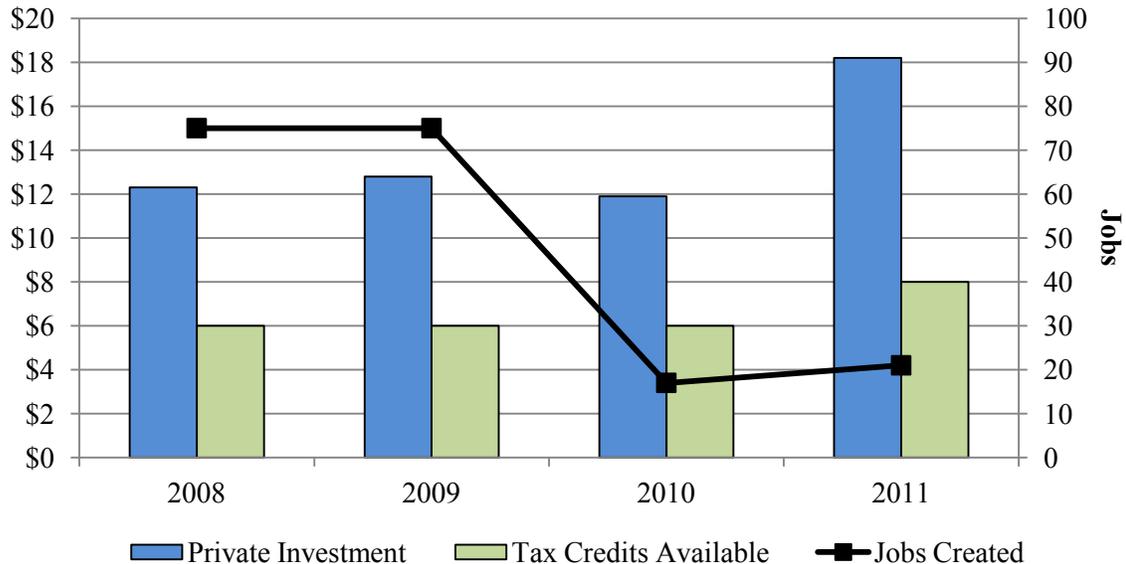
### **Few Jobs Attributable to Biotechnology Tax Credit**

Budget language adopted in the fiscal 2010 budget bill restricted funds under the Maryland Biotechnology Investment Tax Credit program until the department submitted a report on goals, objectives, and outcome measures for the program. Until this report was submitted, the department did not report this data through the Managing for Results (MFR) process. The language asked that

the department consider including in MFR reporting the number of tax credit recipients, the 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.

**Exhibit 2** shows a selection of the MFR measures that resulted from the required report. The State has provided \$6 million in general funded tax credits in fiscal 2008 through 2010 and \$8 million in fiscal 2011. The value of the credit is equal to 50% of an eligible investment made in a qualified biotechnology business during the taxable year.

**Exhibit 2**  
**Selected Performance Measures**  
**Biotechnology Tax Credit**  
**Fiscal 2008-2011**  
**(\$ in Millions)**



Source: Governor’s Budget Books: Fiscal 2010-2011

In fiscal 2011, only 21 new jobs were credited to the disbursement of \$8 million in biotechnology tax credits. However, the department advises that job performance is not a pre-condition for selection or approval of qualified companies or investors. The goal of the credit is not job creation, but to stimulate growth of a strategic industry sector.

The exhibit also shows the amount of private investment each year in qualified biotechnology companies. It appears that what is reported for the MFR process is the bare minimum of investment that is required for the credit (50% of an eligible investment). It is not clear if this is a function of the

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MFR reporting process or if it is an actual reflection of the amount of private investment created by the credit.

## **Fiscal 2012 Actions**

Section 47 of the fiscal 2012 budget bill required the Governor to abolish 450 positions as of January 1, 2012. The department's share of the reduction was 3 positions. The annualized salary savings due to the abolition of these positions is expected to be \$210,163 in general and federal funds.

## **Proposed Deficiency**

The fiscal 2013 allowance includes a fiscal 2012 general fund deficiency of \$2 million to provide funds to support statewide grants for the War of 1812 celebration.

## **Proposed Budget**

As shown in **Exhibit 3**, the fiscal 2013 allowance increases by approximately \$15.6 million over the fiscal 2013 appropriation. This is primarily due to the increase in special funds associated with the sale of insurance premium tax credits under the InvestMaryland program. The increase is partially offset by contingent reductions under the Maryland Tourism Development Board and the Maryland State Arts Council.

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

<b>How Much It Grows:</b>	<b><u>General</u> <u>Fund</u></b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Federal</u> <u>Fund</u></b>	<b><u>Reimb.</u> <u>Fund</u></b>	<b><u>Total</u></b>
2012 Working Appropriation	\$58,733	\$36,626	\$6,513	\$199	\$102,070
2013 Allowance	<u>57,977</u>	<u>57,718</u>	<u>2,147</u>	<u>1,169</u>	<u>119,011</u>
Amount Change	-\$756	\$21,092	-\$4,365	\$970	\$16,940
Percent Change	-1.3%	57.6%	-67.0%	486.4%	16.6%
Contingent Reduction	-\$1,345	\$0	\$0	\$0	-\$1,345
Adjusted Change	-\$2,101	\$21,092	-\$4,365	\$970	\$15,596
Adjusted Percent Change	-3.6%	57.6%	-67.0%	486.4%	15.3%

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**Where It Goes:**

**Personnel Expenses**

New positions – InvestMaryland.....	\$142
Removal of one-time \$750 per employee bonus in fiscal 2012 .....	-174
Annualization of fiscal 2012 employee reduction and other changes .....	-205
Employee and retiree health insurance and retirement system .....	313
Reclassifications.....	48
Turnover adjustments.....	213
Other fringe benefit adjustments .....	55

**Other Changes**

Challenge and Enterprise Fund – InvestMaryland .....	16,288
MSBDFA – InvestMaryland .....	378
Increase in tourism grants, net of contingent reduction .....	2,968
Small, Minority, and Women-Owned Business Account .....	1,923
Statewide cost allocations .....	251
Management of MSBDFA program.....	122
Contractual staff for cyber and space initiative.....	320
Out-of-state travel .....	91
Decline in general and federal funds for MIDFA .....	-2,895
Elimination of Film Rebate program .....	-2,000
Decline in Sunny Day special funds .....	-929
One-time grant for Rural Maryland Council in fiscal 2012 .....	-250
Training grants under Partnership for Workforce Quality .....	-80
Sunset of Preservation of Cultural Arts Program.....	-500
Contingent reduction for State Arts Council.....	-345
Other.....	-139

**Total** **\$15,595**

MIDFA: Maryland Industrial Financing Authority

MSBDFA: Maryland Small Business Development Financing Authority

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

**Financial Assistance Programs**

**Maryland Economic Development Assistance Authority and Fund**

MEDAAF is the department’s primary and most flexible tool for business financial assistance. The fiscal 2013 allowance includes \$4.5 million in general funds in addition to \$10.5 million in special funds. This is the second year in which the program received a general fund infusion. Prior to fiscal 2012, the program had not received any general funds since fiscal 2007. It has operated on its special fund revenue and fund balance.

**Exhibit 4** shows the fund balance summary for MEDAAF for fiscal 2010 through an estimate for fiscal 2013. As has been the case in recent years, the fund balance is estimated to decline. However, actual fund balances have not proved as dire as was predicted. For example, at this time last year, the fund balance at the end of fiscal 2011 was expected to be about \$10 million. However, as shown in the exhibit, the actual fund balance was \$20.3 million. This is due to higher than expected loan repayments and lower than expected financial assistance for businesses in 2011.

**Exhibit 4**  
**Maryland Economic Development Assistance Authority and Fund**  
**Fund Balance Worksheet**  
**Fiscal 2010-2013**  
**(\$ in Thousands)**

	<u>Actual</u> <u>2010</u>	<u>Actual</u> <u>2011</u>	<u>Est.</u> <u>2012</u>	<u>Est.</u> <u>2013</u>
<b>Beginning Balance</b>	<b>\$37,218</b>	<b>\$21,168</b>	<b>\$20,293</b>	<b>\$10,037</b>
<b>Revenues</b>				
General Funds	\$0	\$0	\$4,500	\$4,500
Investment Income	1,151	890	400	300
Interest Income	1,045	799	570	500
Loan Repayments	6,324	6,082	3,000	3,000
Loan Recoveries and Grant Repayments	373	636	500	500
Brownsfield Local Property Tax Cont.	260	785	200	200
Other Income	346	259	10	10
<b>Total Revenues</b>	<b>\$9,499</b>	<b>\$9,451</b>	<b>\$9,180</b>	<b>\$9,010</b>
<b>Total Funds Available</b>	<b>\$46,717</b>	<b>\$30,619</b>	<b>\$29,473</b>	<b>\$19,047</b>
<b>Expenditures</b>				
Encumbrances/Approval Activity – Other	\$14,816	\$8,945	\$15,000	\$14,500
Rescissions of New Approvals	-2,673	-3,691	-1,000	-1,000
Operating Expenses	499	462	579	589
Indirect Expenses	4,421	4,556	4,857	4,918
Transfer to MSBDFA	2,500	0	0	0
Prior Period Operating/Indirect Adjustment	-14	-8	0	0
<b>Total Expenditures</b>	<b>\$19,549</b>	<b>\$10,264</b>	<b>\$19,436</b>	<b>\$19,007</b>
<b>Transfer to General Fund</b>	<b>-\$6,000</b>	<b>-\$62</b>		
<b>Ending Balance</b>	<b>\$21,168</b>	<b>\$20,293</b>	<b>\$10,037</b>	<b>\$40</b>

MSBDFA: Maryland Small Business Development Financing Authority

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

Source: Governor’s Budget Books, Fiscal 2012

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There are other pressures on the fund that are not related to the program's financial assistance capabilities. 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, the MEDAAF is subsidizing the operations of the Maryland Biotechnology Center in the amount of \$2.1 million to \$2.7 million each year (included as part of the Indirect Expenses in Exhibit 4).

#### **Decline in Funds for the Maryland Industrial Financing Authority**

The fiscal 2013 allowance reflects a decrease in general and federal funds in the Maryland Industrial Financing Authority (MIDFA) program totaling almost \$2.9 million.

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 2011 annual report, the fund balance was \$39.3 million in fiscal 2011, with an insurance exposure of about \$23.0 million. This equates to a .59 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.

The fiscal 2012 allowance also included \$2.4 million in general funds for MIDFA to add to the already underused capacity of the Small Business Credit Recovery Program. However, budget language enacted in the fiscal 2012 budget bill prohibited these funds from MIDFA use and instead provided that the funds may only be used for nanotechnology grants under the Maryland Technology Development Corporation (TEDCO). These funds have not been transferred to TEDCO by budget amendment, and the Governor's budget plan now assumes these funds will revert to the general fund.

The department received federal funds through a fiscal 2012 budget amendment (\$495,000) in accordance with the federal Small Business Credit Initiative Act of 2010. MIDFA forwarded these funds to the Department of Housing and Community Development (DHCD) and its Neighborhood Business Works program. This program provides gap financing to new or expanding businesses and nonprofits in Sustainable Communities.

#### **Economic Development Opportunity Fund**

The Economic Development Opportunities Program Fund, or Sunny Day Fund, provides conditional loans and investments to take advantage of extraordinary economic development

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opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged. Activity under this fund has fallen significantly in recent years.

It has been several years since the Sunny Day Fund has had a general fund appropriation. **Exhibit 5** shows that the fund has not received general funds since 2002. Special funds have also declined significantly as most assistance from the fund takes the form of conditional grants or conditional loans, meaning the funds do not need to be repaid if the company meets certain benchmarks, such as employment goals or leveraging private investment.

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**Exhibit 5**  
**Sunny Day Fund – Annual Appropriations**  
**Fiscal 2000-2013**

<u>Fiscal Year</u>	<u>General Funds</u>	<u>Special Funds</u>
2000	\$19,800,000	\$24,375,000
2001	5,500,000	16,600,000
2002	11,625,000	4,250,000
2003	0	13,275,000
2004	0	0
2005	0	2,000,000
2006	0	5,690,000
2007	0	12,769,500
2008	0	5,500,000
2009	0	0
2010	0	0
2011	0	0
2012 Working	0	2,000,000
2013 Allowance	0	1,071,429

Source: Department of Business and Economic Development

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One new project was approved in fiscal 2012 that requires a total of \$9.5 million in Sunny Day incentives over seven years. The special fund appropriations for fiscal 2012 and 2013 represent the first two installments for this project (the retention of employees at Bechtel Group Inc. in Frederick County). It is likely that the balance and loan repayments in fiscal 2014 will not sustain the next installment. As such, a general fund appropriation may be required in the next fiscal year.

## **Maryland Enterprise Fund**

The fiscal 2013 allowance reflects a net increase of \$16.3 million in special funds under the Maryland Enterprise Fund. The fund allows the department to make investments in emerging high-technology businesses in the State.

The Maryland Enterprise Fund claims the proceeds of the auction of tax credits under the Invest Maryland program. The total allowance for the program is \$19.6 million. Of this total, \$4.0 million will stay in the Maryland Enterprise Fund for departmental investments. The remaining \$15.6 million will be allocated, after a request for proposal (RFP) process, to private venture firms. This is in accordance with the legislation that created the InvestMaryland program. The program is discussed in further detail in the Issues section of this analysis.

## **Maryland Small Business Development Financing Authority**

The fiscal 2013 allowance shows an increase of \$377,500 for the MSBDFA program. The increase reflects the influx of special funds resulting from the sale of tax credits under the InvestMaryland program offset by the termination of federal funds in the fiscal 2012 appropriation.

MSBDFA 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 fiscal 2013 allowance provides MSBDFA \$1.9 million in special funds from the proceeds of the InvestMaryland initiative. Funds will be used under the program's Equity Participation Investment Program, consistent with the provisions in the InvestMaryland enabling legislation.

Federal funds decline in the fiscal 2013 allowance by \$1.5 million. The funds were provided in fiscal 2012 in accordance with the federal Small Business Credit Initiative Act of 2010. Additional federal funds from this act have not yet been provided, although a second installment is expected.

Because of the labor intensive nature of the investments in the MSBDFA portfolio, the program is run by an outside contractor. The contract is budgeted separately from the program's investment funds under the department's allowance. The contract increases by about \$122,000 in special funds, a 7.6% increase. Of this total, \$23,900 is for an economic impact study on a potential tax exemption for companies that are sold to certified Minority Business Enterprises.

## **Tourism and the Arts**

### **Maryland Tourism Development Board**

The Maryland Tourism Development Board is charged with implementing State tourism marketing and development programs, in part, through grants to local and nonprofit tourism organizations. Cost containment efforts have flat funded the general funds for the board at \$5 million over the past two years, despite the statutory mandate of \$6 million. The fiscal 2013 allowance

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reflects the full general fund mandate, plus an additional \$2 million in general funds dedicated to the War of 1812 celebration.

The BRFA of 2012 includes a provision that the Governor is not required to include any appropriations in the fiscal 2013 allowance that exceeds the amount provided in the fiscal 2012 budget. As such, there is a contingent reduction to the tourism board of \$1 million in the fiscal 2013 budget bill.

The fiscal 2013 allowance also provides a \$2 million deficiency for fiscal 2012 and an additional \$2 million in fiscal 2013 for grants dedicated to the statewide celebration of the bicentennial of the War of 1812. The department advises that it has received 35 applications in 10 counties for matching grants related to the celebration festivities. Examples of the activities include:

- The Star-Spangled Sailabration – a weeklong maritime event that includes a Blue Angels demonstration, unveiling of public art, and a symphonic event.
- The Annapolis Conference – a week of diplomatic, academic, and popular activities focusing on the relationship between the United States, Canada, and Great Britain.
- Star-Spangled Spectacular 2014 – series of activities to commemorate the Battle of Baltimore and the writing of the Star Spangled Banner.

#### **Maryland State Arts Council**

By statutory mandate, general funds allocated to the Maryland State Arts Council are required to increase each year by the percentage growth in general fund revenues. This mandate has been waived in recent years for cost containment. The fiscal 2013 allowance does reflect that required growth. However, due to the mandate relief provision in the BRFA of 2012 as mentioned above, there is a contingent reduction in the budget bill of \$344,703.

#### **Other Programs**

The Partnership for Workforce Quality provides matching grants to business to upgrade the skills of their workers. The fiscal 2013 allowance declines by \$80,000 for this program. The department was able to fund 10 projects with the fiscal 2012 appropriation of \$165,000.

Chapter 516 of 2011 changed the department's Film Production Rebate program from a grant incentive to a tax credit incentive. Therefore, the program's funding is no longer budgeted in the department's allowance. As such, the fiscal 2013 allowance declines by \$2.0 million in general funds. The department may award up to \$7.5 million in film production tax credits per year.

The Special Fund for Preservation of Cultural Arts in Maryland is a special fund within the department that was designed to provide emergency grants for cultural arts organizations that are in

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danger of closing. However, the BRFA's of the last several years have diverted funding from the fund for cost containment and other budgetary uses. The fund was never used for its intended purpose. It sunsets at the end of fiscal 2012. As such, the fiscal 2013 allowance declines by \$500,000.

The fiscal 2013 allowance reflects an increase in out-of-state travel of approximately \$91,000. The majority of this increase is housed in the Office of International Investment and Trade. It is understood that the Governor is planning trade missions to South Africa, the Middle East, and potentially, South America.

The fiscal 2013 allowance reflects the department's new focus on the cyber industry and the space business industry. The allowance includes the addition of 2 contractual full-time equivalents that will have particular expertise in the aforementioned industry sectors. Further, the department expects to increase advertising and sponsorships of major cyber and space events such as the Cyber Hall of Fame and the Cyber Challenge Conference. Finally, the allowance includes additional funds for an economic impact and feasibility study related to the flight facility on Wallops Island and commercial space flight potential on the lower Eastern Shore.

Language was added to the fiscal 2012 budget bill restricting funds in the MEDAAF program to be used only to increase the grants provided to the regional economic development councils. The department advised that it is working toward this end. The fiscal 2013 allowance, however, budgets the grants at the lower level.

Section 19 of the fiscal 2013 budget bill proposes to provide resources to the Department of Information Technology (DoIT) to manage web design services and contracts. The objective is to consolidate contracts and personnel so that DoIT manages basic systems while agencies manage their specialized content. Approximately \$900,000 and 11 regular positions are authorized to be transferred from State agencies' budgets into DoIT's budget. With respect to DBED, the section authorizes the Governor to transfer 1 regular position and \$80,675 in special funds from DBED into DoIT. This initiative is discussed in the DoIT budget.

Section 20 of the fiscal 2013 budget bill proposes to provide some staff and funding for a Statewide Geographic Information Office in DoIT. In August 2011, the Board of Public Works approved a Statewide Geographic Information Systems (GIS) contract that is managed by DoIT. The new contract provided GIS services to the entire State for the cost of the contracts from individual State agencies, thereby expanding usage without increasing costs. The new office plans to consolidate storage and access to mapping data and to develop standard mapping products and applications. To staff the new office, the section authorizes the transfer of 5 regular positions and \$1.2 million from State agencies into DoIT. With respect to DBED, the section authorizes the Governor to transfer 1 regular position and \$91,003 in general funds from DBED into DoIT. This initiative is discussed in the DoIT budget.

## **Budget Reconciliation and Financing Act of 2012**

### **Small, Minority, and Women-owned Business Account**

The statute requires that 1.5% of the proceeds of video lottery terminals (VLT) 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 VLT 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 an RFP to seek a program manager that will receive and allocate the program's funds. The allowance includes \$7.9 million in special funds for the program.

The fiscal 2011 appropriation to the account was \$1.86 million; however, due to lower than expected VLT revenues, only \$1.55 million accrued to the fund. Similarly, approximately \$5.9 million was appropriated to the account in fiscal 2012; but only about \$2.4 million is expected to accrue. However, to date, the parameters of the program have not yet been set and no investment funds have been provided from the account to any business.

The Budget Reconciliation and Financing Act (BRFA) of 2012 includes a provision that allows the Governor to transfer \$1,867,000 from the Small, Minority, and Women-owned Business Account to the Education Trust Fund in fiscal 2012.

**The Department of Legislative Services (DLS) recommends increasing the authorized transfer to \$3,950,000, representing the accrued but unexpended funds from fiscal 2011 and 2012. This action will enable a contingent reduction to the general funds under Aid to Education.**

### **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.

No funds are budgeted for the program in fiscal 2013. However, approximately \$112,000 is expected to accrue to the account over the next fiscal year. The BRFA of 2012 authorizes the transfer of \$111,063 from the Maryland Not-For-Profit Development Center Program Fund to the general fund in fiscal 2013. This is similar to actions in the last two years.

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The fiscal 2012 budget included \$125,000 for the program. However, the BRFA of 2011 authorized the transfer of \$250,000 from the program 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 2013, although the incorporation fee surcharge will continue to be collected and accrue to the fund.

## ***Issues***

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### **1. Progress of InvestMaryland**

Chapter 409 of 2011 was enacted to create the InvestMaryland program. This legislation created a State-supported venture capital program and also increased funding for the department's Enterprise Fund and MSBDFA. These programs will receive an estimated \$70 million in total funding over three years, 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 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. 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. The fiscal 2013 allowance provides \$19.6 million for the Enterprise Fund (\$15.6 million of which will be distributed to private venture firms) and \$1.9 million for MSBDFA's equity participation program. The allowance is assuming that the tax credits will sell for the minimum amount required in the statute.

If qualified investments made under the program are successful, money will be returned to the State. Qualified investments are fully at risk; the State will not receive returns if investments fail. Money provided to the Maryland Enterprise Fund is to fund investments in 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.

#### **InvestMaryland Timeline**

Since the enactment of the legislation, the department has prepared a timeline to facilitate the new program. The first action was the formulation of the Maryland Venture Fund Authority in August 2011. The mission of the authority is to oversee the development and implementation of the program and ensuring that the use of investment funds meets the intent of the State.

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The authority has been meeting regularly since August 2011. Among its actions, it has set an investment strategy, contracted with an independent third party to conduct a bidding process, and established application procedures for private venture firms. A specific timeline for the first year of the program is as follows:

- **January 2012:** Authority selects a venture capital selection consultant  
Venture capital firms may apply for certification  
Insurance companies apply to bid on tax credits
- **February 2012:** Tax Credit Auction training sessions
- **March 2012:** Execute tax auction  
Issue request for proposals for certified venture capital firms
- **May 2012:** Evaluation and selection of venture capital firms  
Successful auction bidders notified
- **June 2012:** Initial awards to venture capital firms  
Insurance companies make first payment

To date, the department and the authority appear to be meeting these benchmarks. The State will have the proceeds of the auction by June 2012 for investments from the Maryland Enterprise Fund and MSBDFEA immediately in fiscal 2013.

**DLS recommends that the department brief the budget committees on the progress of the InvestMaryland program and also describe how it will have the capacity to invest the influx of funds over the next three fiscal years.**

## **2. Maryland Made Easy**

Maryland Made Easy is an Administration initiative aimed at making it easier for business to interact with State government. It includes (1) fast track project reviews; (2) regulatory reform; (3) a central business licensing (CBL) system, and (4) a new State Highway Administration permit processing system. The department is responsible for coordinating the effort, especially in regards to the fast track process and the central business licensing project.

### **Fast Track**

An executive order was issued in June 2011 to establish Fast Track to expedite State review of qualifying development projects to promote economic development, job creation, and smart growth. The initiative is designed to provide approved projects with a “concurrent and coordinated review by all relevant state agencies for any necessary state permits, allowing for the identification of any

possible approval issues early in the development process.” The executive order identifies the need for the fast tracking of projects because of the prolonged nature of the recession on the construction and development sector and because of the complexity of policies and procedures for business and economic development projects. It is important to note, however, that the Fast Track initiative states that it cannot expedite federal or local permits or approvals.

To date, one project has applied for expedited processing through Fast Track.

### **Central Business Licensing System**

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 system is intended to consolidate information from over 400 State programs that issue permits, licenses, registrations, certifications, or other type of State approval to conduct business. The department identified 22 State departments or offices that have some stake in the project and some involvement in allowing businesses to operate in the State. In the effort to design the project, the department has procured consulting services and has formed an executive steering committee comprised of representatives from seven State agencies. The consultant conducted surveys and interviews with the various stakeholder agencies.

The solution, as determined by the department, in consultation with the Department of Information Technology is a self-funded e-government portal. In August 2011, BPW approved a master contract with an application developer to develop websites, online services, and secure payment processing applications for State permits and licenses. The State is not charged for this service; the developer generates revenues by charging convenience fees and pooling these revenues to support other applications. The department expects a limited release of this service sometime this calendar year.

**DLS recommends that the department comment on the progress of the Maryland Made Easy initiative, and specifically on the minimal interest in the Fast Track program.**

### **3. Legislative Audit Shows Lack of Proper Documentation for Tax Credits**

The Office of Legislative Audits released its audit for the department in February 2012. Among the four findings was the fact that, in the majority of cases, the department did not require applicants for the One Maryland Tax Credit to document related project costs.

Under the One Maryland Tax Credit program, businesses that invest in an economic development project in a “qualified distressed county” may qualify for project tax credits of up to \$5 million and start-up tax credits of up to \$500,000. The project tax credit is based on qualifying costs and expenses incurred with the acquisition, construction, rehabilitation, installation, and equipping of an eligible project. The start-up tax credit is for the expense of moving a business from

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outside Maryland and for the costs of furnishing and equipping a new location. The applicants for the credit must document these costs for the department to issue certificates of eligibility.

The audit found that in 10 test cases, eight applicants were certified as eligible for the tax credit but did not provide any documentation to support reported project and start-up costs. The department certified these eight applicants for \$34.0 million in tax credits. The audit further reports that the Comptroller, based on the department's certification, allowed \$11.7 million in One Maryland tax credits for these applicants.

Since the program's inception, the department reports that it has issued final certificates of eligibility to 44 projects that have created 2,818 new jobs with a payroll of \$152.9 million, or an average wage of \$54,252. The projects incurred a total of \$165.7 million in project and start-up costs.

The audit also disclosed one repeat finding. It reports that some required expenditure and performance reports were not received from some grantees. It specifically notes that the Office of Tourism Development did not obtain these required documents associated with a \$300,000 grant. A full listing of the audit's findings can be found in Appendix 2.

**DLS recommends that the department brief the budget committees on the actions it has taken to address the audit's findings.**

## Recommended Actions

	<b><u>Amount Reduction</u></b>	
1. Reduce the increase in general funds for out-of-state travel under the Office of International Investment and Trade.	\$ 78,440	GF
2. Reduce funds for feasibility study under the Maryland Small Business Development Financing Authority. The study would examine the policy of easing tax burdens associated with the acquisition of businesses by Minority Business Enterprises.	23,900	SF
3. Delete funds for the new space business incubator initiative. This includes a contractual position, promotional costs, and other costs associated with the creation of a space business incubator.	224,285	GF
4. Reduce general funds under the Maryland Biotechnology Investment Tax Credit Reserve Fund. This action would reduce the program to a prior funding level. Performance measures associated with the tax credit do not warrant a continuation of the increased funding level.	2,000,000	GF
5. Delete the general funds from the Maryland Economic Development Assistance Authority and Fund (MEDAAF). MEDAAF showed less activity and higher repayments in fiscal 2011. As such, the need for general funds to recapitalize the program is less pressing.	4,500,000	GF
6. Strike the following language to the general fund appropriation:  <del>provided that this appropriation shall be reduced by \$1,000,000 contingent upon the enactment of legislation reducing the mandated amount of funds for the Maryland Tourism Development Board.</del>		

**Explanation:** The fiscal 2013 budget bill as introduced includes a \$1 million reduction to the Maryland Tourism Development Board contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2012 that allows the Governor to fund mandates at the fiscal 2012 level. This action strikes the contingent reduction so that the reduction may be taken directly.

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	<b><u>Amount Reduction</u></b>	
7. Reduce general funds under the Maryland Tourism Development Board. This action would level fund grants for tourism related activities.	1,000,000	GF
8. Reduce fiscal 2013 grant funds for the War of 1812 celebration. This action will still leave \$1 million in grant funds in fiscal 2013 for the celebration of the War of 1812.	1,000,000	GF
9. Strike the following language to the general fund appropriation:		

~~; provided that this appropriation shall be reduced by \$344,703 contingent upon the enactment of legislation reducing the mandated amount of funds for the Maryland State Arts Council.~~

**Explanation:** The fiscal 2013 budget bill as introduced includes a \$344,703 reduction to the Maryland State Arts Council contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act that allows the Governor to fund mandates at the fiscal 2012 level. This action strikes the contingent reduction so that the reduction may be taken directly.

	<b><u>Amount Reduction</u></b>	
10. Reduce the increase in funds for the Maryland State Arts Council. This action will level fund the program.	344,703	GF
11. Reduce the fiscal 2012 deficiency for the War of 1812 celebration. This action will still leave \$1 million in fiscal 2012 for tourism grants related to the celebration of the War of 1812.	1,000,000	GF
<b>Total Reductions to Fiscal 2012 Deficiency</b>	<b>\$ 1,000,000</b>	
<b>Total Reductions to Allowance</b>	<b>\$ 9,171,328</b>	
<b>Total General Fund Reductions to Allowance</b>	<b>\$ 9,147,428</b>	
<b>Total Special Fund Reductions to Allowance</b>	<b>\$ 23,900</b>	

## ***Updates***

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### **1. Welcome Centers**

The Maryland Department of Transportation (MDOT) operates and maintains rest areas, some with welcome centers and some without, at major gateways and strategic locations across the State. Prior to fiscal 2011, DBED provided 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.

For fiscal 2011, DBED entered into an MOU with Worcester County to operate the Pocomoke welcome center and an MOU with Charles County to operate the Crain Memorial Highway (US 301) 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 throughout fiscal 2011. No other local jurisdictions where welcome centers were closed were able to enter into similar MOUs.

### **Current Status of Welcome Centers**

The department's fiscal 2013 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 from November through April and Wednesday through Sunday from May until October. Also, under the State auspices are the South Mountain welcome centers on I-70 East and West, open Friday through Sunday from November through April and Thursday through Sunday from May through October.

For fiscal 2012, the Pocomoke and Crain Memorial Welcome Centers have remained open and are operated entirely by Worcester County and Charles County, respectively. MDOT required DBED to enter into MOUs with each county even though no State funding supports their operation.

Finally, in February 2012, the department announced plans to reopen the Mason and Dixon welcome center in Emmitsburg. The center is expected to open in May, a year before the 150th anniversary of the battle of Gettysburg, which will likely bring an influx of visitors.

## 2. Major Grants

The department awarded \$16.4 million in grants in fiscal 2011, as shown in **Exhibit 6**. The exhibit also shows that another \$16.7 million is expected in fiscal 2012. A slight decrease is expected in fiscal 2013. However, the vast majority of grants are flat funded.

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**Exhibit 6**  
**Department of Business and Economic Development**  
**Summary of Major Grants**  
**Fiscal 2011-2013**

	<u>Actual</u> <u>2011</u>	<u>Appropriation</u> <u>2012</u>	<u>Allowance</u> <u>2013</u>
<b>Office of the Secretary</b>			
<i>Maryland Biotechnology Center</i>			
New Biotech Grant Assistance	\$1,794,205	\$1,670,224	\$1,794,205
<i>Subtotal</i>	<i>\$1,794,205</i>	<i>\$ 1,670,224</i>	<i>\$1,794,205</i>
<b>Division of Business and Enterprise Development</b>			
<i>Office of International Trade and Development</i>			
Maryland Israel Development Corp	\$139,808	\$139,808	\$139,808
World Trade Center Institute (WTCI)	174,962	174,962	174,962
Export MD – Small Business Foreign Trade Grants	148,997	382,000	382,000
<i>Military/Federal and BRAC Assistance</i>			
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
<i>Workforce Development and Coordination</i>			
Maryland Industrial Training Program	-	-	-
Partnership for Workforce Quality	189,024	165,000	85,000
Governor’s Workforce Investment Board	26,635	25,624	25,624
<i>Small Business</i>			
Strategic Assistance Consulting Fund – Booth Small Business Development Center/ University of Maryland – PTAP	135,000	135,000	135,000

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	<u>Actual 2011</u>	<u>Appropriation 2012</u>	<u>Allowance 2013</u>
University of Maryland – SBDC	85,400	85,400	85,400
Micro Enterprise Council of Maryland			
<b><i>Community Development</i></b>			
Appalachian Regional Commission	17,887	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
Upper Shore Regional Council	73,500	73,500	73,500
Rural Maryland Council	-	250,000	-
University of Baltimore – Entrep. Opport.	-	-	-
<b><i>Technology Development</i></b>			
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
<b><i>Subtotal</i></b>	<b><i>\$1,741,633</i></b>	<b><i>\$2,196,983</i></b>	<b><i>\$1,866,983</i></b>
<b>Division of Tourism, Film, and the Arts</b>			
Star Spangled 200, Inc.	\$25,000	-	-
Star Spangled 200, Inc.	60,000	-	-
Star Spangled 200, Inc.	32,500	-	-
MD Tourism Education Foundation	35,000	-	-
MD Tourism Council	25,000	-	-
Capital Region USA, Inc.	239,500	\$239,500	\$239,500
<b><i>Subtotal – Tourism</i></b>	<b><i>\$417,000</i></b>	<b><i>\$239,500</i></b>	<b><i>\$239,500</i></b>
<b>Maryland State Arts Council Grants *</b>			
Baltimore Symphony Orchestra	\$1,483,806	\$1,629,083	
The Walters Art Gallery	876,344	851,895	
The Baltimore Museum of Art	862,228	838,448	
Baltimore Clayworks	73,047	61,662	
Center Stage Associates, Inc.	472,239	432,831	
Baltimore Opera Company, Inc.			
Maryland – National Capital Park and Planning	238,440	243,000	
American Visionary Art Museum, Inc.	166,715	138,894	
Olney Theater Center for the Arts	214,683	177,276	
Round House Theater, Inc.	185,908	195,132	
Maryland Hall for the Creative Arts	108,414	106,077	

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	<u>Actual 2011</u>	<u>Appropriation 2012</u>	<u>Allowance 2013</u>
Strathmore Hall Arts Center	474,471	436,297	
Maryland Symphony Orchestra	74,477	78,180	
AFI Silver Theatre and Cultural Center	52,344	60,000	
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	289,617	314,976	
Liz Lerman Dance Exchange	84,379	68,139	
Baltimore’s Festival of the Arts, Inc.	52,930	54,332	
Creative Alliance	64,355	69,000	
National Council for the Traditional Arts	51,432	52,569	
Univ. of MD Smith Performance Arts Center at MD National Chamber Orchestra Society, Inc./ National Philharmonic	78,516	88,000	
Everyman Theatre Inc.	96,175	106,000	
Academy Art Museum	63,458	63,654	
Annapolis Symphony Orchestra	65,098	61,554	
Class Acts Arts, Inc.	84,609	77,381	
Modell Performing Arts Center at the Lyric	50,255	65,000	
Jewish Museum of Maryland	51,865	58,000	
The Writer’s Center	59,695	54,692	
Avalon Foundation Inc.	79,251	74,377	
The Ward Museum of Wildfowl Art	66,872	61,283	
Young Audiences of Maryland Inc.	73,779	80,167	
Grants to All Other Organizations	2,434,099	2,232,993	
<b><i>Subtotal – Grants to Arts Organizations *</i></b>	<b><i>\$9,317,391</i></b>	<b><i>\$9,282,617</i></b>	<b><i>\$9,343,897</i></b>
Community Arts Development	2,138,137	2,138,134	2,238,140
Artists in Education	599,816	677,000	677,000
Individual Artists and Other Programs	245,000	252,000	275,000
Public Arts Programs			10,000
Maryland Traditions	188,987	215,000	215,000
<b>Total – Arts Council</b>	<b>\$12,489,331</b>	<b>\$12,564,751</b>	<b>\$12,759,037</b>
<b>Total DBED Grants</b>	<b>\$16,442,169</b>	<b>\$16,671,458</b>	<b>\$16,659,725</b>

BRAC: Base Realignment and Closure

DBED: Department of Business and Economic Development

MTES: Maryland Technology Extension Services

PTAP: Procurement Technical Assistance Program

SBCD: Small Business Development Center

\*The final distribution of Maryland State Arts Council grants to arts organizations for fiscal 2013 is not known at this time.

Source: Department of Business and Economic Development

## *Current and Prior Year Budgets*

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2011</b>					
Legislative Appropriation	\$54,575	\$43,179	\$1,907	\$195	\$99,855
Deficiency Appropriation	-200	500	0	0	300
Budget Amendments	2,000	0	131	504	2,634
Reversions and Cancellations	-385	-16,955	-53	0	-17,393
<b>Actual Expenditures</b>	<b>\$55,990</b>	<b>\$26,724</b>	<b>\$1,984</b>	<b>\$698</b>	<b>\$85,397</b>
<b>Fiscal 2012</b>					
Legislative Appropriation	\$58,609	\$33,554	\$1,760	\$199	\$94,122
Budget Amendments	123	3,071	4,753	0	7,948
<b>Working Appropriation</b>	<b>\$58,733</b>	<b>\$36,626</b>	<b>\$6,512</b>	<b>\$199</b>	<b>\$102,070</b>

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

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## **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 general funds as described in the language.

Conversely, general funds declined from the original fiscal 2011 appropriation due to 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 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.

Actual special fund expenditures in fiscal 2011 were much less than what was originally appropriated with a notable exception: 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 BRFA of 2010 established a special fund for these grants and specified that a portion of admission and amusement taxes be used for this purpose in fiscal 2011 only.

The decline in expected special fund spending is largely due to a change in the way that special funds are reported under MSBDFEA. There was concern that annual appropriations under the program were artificially inflated and did not accurately reflect the activity under the program's lines of credit. Therefore, the accounting method was altered, leading to an artificially large cancellation at year's end (\$10.5 million).

Additionally, the department canceled \$3.1 million in special funds under the MEDAAF. Of the \$12.0 million originally appropriated for this program, the department was only able to close business incentive deals that fit the parameters of the program for about \$9.0 million. Also, \$1.9 million in special funds was canceled under the newly created Small, Minority, and Women-Owned Business account, which is comprised of proceeds from the State's VLT program. Although funds have been accruing to this account, parameters of the program have not yet been designed by the department, and therefore, funds could not be expended.

Federal funds increased in fiscal 2011 due to a budget amendment to appropriate \$130,654 to the Office of Military and Federal Affairs. The additional funds were made available through a grant from the federal Office of Economic Adjustment with the U.S. Department of Defense. The State has been a recipient of this grant since fiscal 2008 and funds were used to address the economic impacts of the BRAC process.

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Finally, the original fiscal 2011 reimbursable fund appropriation was increased by about \$504,000 due to a budget amendment that transferred funds from MDOT to the Maryland Tourism Development Board in order to promote the State's scenic byways related to the War of 1812 Bicentennial.

## **Fiscal 2012**

The original general fund appropriation in fiscal 2012 was increased by \$123,471 due to the one-time \$750 per employee bonus. Similarly, the original special and federal fund appropriation were increased for this purpose by \$41,964 and \$8,070, respectively.

Special funds also increased in fiscal 2012 due to a \$2.0 million appropriation to the Sunny Day program. Fund balance was available to allocate to the program to be used as the first payment of a retention package for the Bechtel Corporation. Additionally, another budget amendment increased fiscal 2012 special funds by \$706,875 in order to implement InvestMaryland. Funds are available from the fund balance of the Maryland Enterprise Investment Fund. This fund will be replenished with proceeds from the auction of the tax credits under InvestMaryland (expected to be approximately \$5.6 million in fiscal 2012). Specifically, the funds are being used to hire 3 positions to administer the program and to contract with consultants to design the auction process and to vet venture capital firms. The InvestMaryland legislation also required that \$250,000 of the auction proceeds be forwarded to the Rural Maryland Council for operational expenses related to economic development activities. A separate budget amendment provided for these funds from the Maryland Enterprise Investment Fund.

Special funds also increased by \$72,372 to fund a position that was previously funded through a federal grant.

Federal funds also increase in fiscal 2012. A budget amendment appropriated \$619,897 in federal funds to the Office of International Investment and Trade within DBED. Funds are received through a grant from the U.S. Small Business Administration (SBA) and through a grant from the Appalachian Regional Commission. SBA's State Trade and Export Promotion grant will enable the department to increase financial assistance to Maryland companies to offset the costs of participation in foreign trade show events and Governor-led foreign missions. The grant will also provide funds for 1 position to administer this financial assistance. The total amount of the federal grant is \$584,897. The Western Maryland Export Initiative grant program was authorized by the Appalachian Regional Development Act of 1965 and is providing \$35,000 in federal funds to the department. The department is using the funds to identify Appalachian companies interested in exporting goods and will provide them with technical support and services.

Finally, another budget amendment appropriated \$4,125,000 in federal funds to various programs within DBED. The funds are provided in accordance with the federal Small Business Credit Initiative Act of 2010.

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Of the total funds, \$1,485,000 will be appropriated to MSBDFEA and its Equity Participation Investment program which seeks to expand business ownership by socially and economically disadvantaged entrepreneurs and small businesses that do not meet the established credit criteria of financial institutions and are unable to obtain adequate business financing on reasonable terms through normal financing channels. Also under this amendment, the department's Venture Fund received \$2,145,000 in order to make direct investments in technology and life science companies. Finally, the amendment provided \$495,000 in federal funds to MIDFA. The authority will forward these funds to DHCD and its Neighborhood Business Works program. This program provides gap financing to new or expanding businesses and nonprofits in Sustainable Communities.

## ***Audit Findings***

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Audit Period for Last Audit:	October 1, 2007 – November 2, 2010
Issue Date:	February 2012
Number of Findings:	4
Number of Repeat Findings:	1
% of Repeat Findings:	25%
Rating: (if applicable)	n/a

**Finding 1:** DBED did not require applicants for the One Maryland Tax Credit program to submit supporting documentation for all project and start-up costs.

**Finding 2:** DBED did not take action to recover its \$250,000 investment in an international company after the company moved its principal place of business out of Maryland.

**Finding 3:** The capabilities of system users on DBED’s financing programs monitoring system were not adequately restricted.

**Finding 4:** **Required expenditure and performance reports were not received from certain grantees.**

\*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>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	233.00	225.00	227.00	2.00	0.9%
02 Contractual	9.93	13.60	15.90	2.30	16.9%
<b>Total Positions</b>	<b>242.93</b>	<b>238.60</b>	<b>242.90</b>	<b>4.30</b>	<b>1.8%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 20,716,557	\$ 21,664,542	\$ 22,056,158	\$ 391,616	1.8%
02 Technical and Spec. Fees	464,727	692,482	868,087	175,605	25.4%
03 Communication	717,619	540,964	527,596	-13,368	-2.5%
04 Travel	473,735	549,327	648,844	99,517	18.1%
06 Fuel and Utilities	22,929	22,147	24,076	1,929	8.7%
07 Motor Vehicles	274,396	288,025	259,766	-28,259	-9.8%
08 Contractual Services	8,382,602	9,326,856	11,472,383	2,145,527	23.0%
09 Supplies and Materials	207,503	249,374	227,696	-21,678	-8.7%
10 Equipment – Replacement	124,261	14,150	14,670	520	3.7%
11 Equipment – Additional	181,526	7,400	11,450	4,050	54.7%
12 Grants, Subsidies, and Contributions	31,463,521	37,834,487	39,079,619	1,245,132	3.3%
13 Fixed Charges	2,342,855	2,355,629	2,453,144	97,515	4.1%
14 Land and Structures	20,024,303	28,525,000	41,367,262	12,842,262	45.0%
<b>Total Objects</b>	<b>\$ 85,396,534</b>	<b>\$ 102,070,383</b>	<b>\$ 119,010,751</b>	<b>\$ 16,940,368</b>	<b>16.6%</b>
<b>Funds</b>					
01 General Fund	\$ 55,990,031	\$ 58,732,673	\$ 57,976,702	-\$ 755,971	-1.3%
03 Special Fund	26,724,233	36,625,578	57,717,701	21,092,123	57.6%
05 Federal Fund	1,984,160	6,512,786	2,147,402	-4,365,384	-67.0%
09 Reimbursable Fund	698,110	199,346	1,168,946	969,600	486.4%
<b>Total Funds</b>	<b>\$ 85,396,534</b>	<b>\$ 102,070,383</b>	<b>\$ 119,010,751</b>	<b>\$ 16,940,368</b>	<b>16.6%</b>

Note: The fiscal 2012 appropriation does not include deficiencies.

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

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
0A Department of Business and Economic Development	\$ 11,399,420	\$ 11,723,935	\$ 12,026,103	\$ 302,168	2.6%
0E Division of Marketing	3,743,460	3,983,266	4,122,631	139,365	3.5%
0F Division of Financial Assistance Programs	43,833,626	59,544,278	74,333,118	14,788,840	24.8%
0G Division of Tourism and Promotion	26,420,028	26,818,904	28,528,899	1,709,995	6.4%
<b>Total Expenditures</b>	<b>\$ 85,396,534</b>	<b>\$ 102,070,383</b>	<b>\$ 119,010,751</b>	<b>\$ 16,940,368</b>	<b>16.6%</b>
General Fund	\$ 55,990,031	\$ 58,732,673	\$ 57,976,702	-\$ 755,971	-1.3%
Special Fund	26,724,233	36,625,578	57,717,701	21,092,123	57.6%
Federal Fund	1,984,160	6,512,786	2,147,402	-4,365,384	-67.0%
<b>Total Appropriations</b>	<b>\$ 84,698,424</b>	<b>\$ 101,871,037</b>	<b>\$ 117,841,805</b>	<b>\$ 15,970,768</b>	<b>15.7%</b>
Reimbursable Fund	\$ 698,110	\$ 199,346	\$ 1,168,946	\$ 969,600	486.4%
<b>Total Funds</b>	<b>\$ 85,396,534</b>	<b>\$ 102,070,383</b>	<b>\$ 119,010,751</b>	<b>\$ 16,940,368</b>	<b>16.6%</b>

Note: The fiscal 2012 appropriation does not include deficiencies.