

T00
Department of Commerce

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$92,002	\$89,463	\$97,147	\$7,684	8.6%
Adjustments	0	19,600	-60	-19,660	
Adjusted General Fund	\$92,002	\$109,063	\$97,086	-\$11,976	-11.0%
Special Fund	47,975	48,614	54,529	5,915	12.2%
Adjustments	0	5,600	-20	-5,620	
Adjusted Special Fund	\$47,975	\$54,214	\$54,509	\$296	0.5%
Federal Fund	1,863	10,221	1,663	-8,558	-83.7%
Adjustments	0	0	-2	-2	
Adjusted Federal Fund	\$1,863	\$10,221	\$1,661	-\$8,560	-83.7%
Reimbursable Fund	107	206	0	-206	-100.0%
Adjusted Reimbursable Fund	\$107	\$206	\$0	-\$206	-100.0%
Adjusted Grand Total	\$141,947	\$173,703	\$153,257	-\$20,446	-11.8%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 allowance includes a fiscal 2017 deficiency appropriation of \$20.0 million in general funds for the Economic Development Opportunities Program (Sunny Day) to provide a four-year retention incentive to Marriott International, Inc. located in Montgomery County. A second Sunny Day deficiency provides \$5.0 million in special funds for a fiscal 2017 installment under the approved incentive agreement with the Northrop Grumman Corporation. The allowance includes two additional fiscal 2017 special fund deficiencies: \$500,000 under the Maryland E-Innovation Fund and \$100,000 for the Military Personnel and Service-Disabled Veteran Loan Program.

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

For further information contact: Jody J. Sprinkle

Phone: (410) 946-5530

T00 – Department of Commerce

- After adjusting for fiscal 2017 actions and contingent reductions, the fiscal 2018 allowance for the Department of Commerce (Commerce) decreases by \$20.5 million, or 11.8%. This is heavily skewed by fiscal 2017 deficiencies and by the loss of federal funds in fiscal 2018. Absent the deficiencies, general funds actually increase by \$7.7 million and special funds increase by \$5.9 million in fiscal 2018.
- Driving the underlying growth in general funds in fiscal 2018 is a \$10.0 million increase in the Maryland Economic Development Assistance Authority and Fund. This growth is offset, in part, by a decline in general funds for the Film Production Activity Film Credit. Special funds increase due to the growth in video lottery terminal revenues dedicated to the Small, Minority, and Women-Owned Business Account (SMWOBA).

Personnel Data

	<u>FY 16 Actual</u>	<u>FY 17 Working</u>	<u>FY 18 Allowance</u>	<u>FY 17-18 Change</u>
Regular Positions	202.00	193.00	193.00	0.00
Contractual FTEs	<u>18.10</u>	<u>21.38</u>	<u>25.00</u>	<u>3.62</u>
Total Personnel	220.10	214.38	218.00	3.62

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	10.62	5.50%
Positions and Percentage Vacant as of 12/31/16	12.00	6.22%

- Regular full-time equivalent positions are unchanged in the fiscal 2018 allowance. However, the department relinquished 6 positions in fiscal 2017 due to the across-the-board position reduction contained in Section 20 in the fiscal 2017 budget bill.
- The fiscal 2018 allowance includes funds to increase contractual staffing levels, primarily to increase staff at welcome centers across the State.
- The fiscal 2018 allowance reflects an increased turnover rate at the same time as the department has considerably lowered its vacancy rate.

Analysis in Brief

Major Trends

Department Reports Jobs Created and Retained: The department aims to develop and maintain a pipeline of projects resulting in facility location decisions and other projects that create or retain jobs. As a result of its actions, the department reports that 7,616 jobs were created and 3,689 jobs were retained in fiscal 2016.

New Measure on Workforce Training: The department has introduced a new performance objective and a new performance measure related to its new WorkSmart program. The program is a collaboration with the community colleges to build customized training for businesses. The department expects that 35 business will participate in this program in fiscal 2017.

Biotechnology Investment Incentive Tax Credit: The Maryland Biotechnology Investment Incentive Tax Credit program aims to spur seed and early-stage investment in eligible Maryland biotechnology companies. The popularity of the program has remained high, and funds have grown over the life of the program. Job creation is not considered a goal of the program but rather to stimulate private-sector investment in State businesses.

Issues

Report on Improvements to the Small, Minority, and Women-Owned Business Account: The fiscal 2017 budget bill included restrictive language that requested a report on the SMWOBA. The report specifically addresses findings in a 2015 legislative performance audit and issues related to the procurement, oversight, and reimbursement of fund managers; geographic distribution of program assistance; and program performance evaluation. **The Department of Legislative Services (DLS) recommends that the department brief the budget committees on the SMWOBA, including the distribution of funding, the use of fund managers, and the legislation to transfer authority of the program from the Board of Public Works to Commerce.**

InvestMaryland and the Maryland Small Business Development Financing Authority: The Maryland Small Business Development Financing Authority (MSBDFA) is designed to provide financing options for small businesses that are not able to qualify for financing from private lending institutions or owned by socially and economically disadvantaged persons. In 2012, the program received a portion of the funding under the InvestMaryland program, a State-supported venture capital program funded by the sale of tax credits against the insurance premiums tax. Venture investments are not historically the types of investments that comprise MSBDFA's portfolio. As a result, it has been challenged in identifying potential early-stage companies in which to invest. **DLS recommends that the department comment on the slow deployment of InvestMaryland funds from MSBDFA. Further, DLS recommends that a significant portion of InvestMaryland funds be transferred from MSBDFA to the Maryland Venture Fund.**

Recommended Actions

	<u>Funds</u>
1. Reduce funds under the Office of Biohealth.	\$ 400,000
2. Reduce the increase under the Small, Minority, and Women-Owned Business Account.	3,216,188
3. Add language making funds for the Cybersecurity Investment Incentive tax credit contingent on legislation.	
4. Add language making funds under the Maryland Economic Development Assistance Authority and Fund contingent on legislation.	
5. Reduce the increase in general funds for the Maryland Economic Development Assistance Authority and Fund.	5,000,000
Total Reductions	\$ 8,616,188

Updates

Report on Customer Service Initiatives: The fiscal 2017 budget bill included language that restricted funds until the department submitted an updated report on customer service initiatives. The initial 2015 report originated from a legislative workgroup on the business climate in Maryland. The department submitted its report in January 2017 and summarized the State’s customer service efforts and included recommendations for further improvements.

Major Grants: The department expects to award approximately \$30.8 million in various economic development, tourism, and arts related grants in fiscal 2018.

T00
Department of Commerce

Operating Budget Analysis

Program Description

The mission of the Department of Commerce (Commerce), formerly the Department of Business and Economic Development, is to strengthen the Maryland economy. Commerce 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 Industry Sector Development; and the Division of Tourism, Film, and the Arts. The department's mission and goals are supported by these three 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 offices of the Attorney General, Policy and Research, International Investment and Trade, Administration and Technology, Military and Federal Affairs, and the Division of Marketing and Communication. Also included under the purview of the Secretary is the Maryland Marketing Partnership.
- ***Division of Business and Industry Sector 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 Biohealth, Business Development, Strategic Industries and Entrepreneurship, and Cybersecurity and Aerospace. 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

Commerce administers several primary business assistance programs. These programs provide resources upon which the Division of Business and Industry Sector Development draws when assembling incentives to help a business expand or locate in Maryland. The 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 Equity Participation Investment Program.
- ***Small, Minority, and Women-Owned Business Account:*** This program is designed to provide capital investments and loans for small, minority, and women-owned businesses that are primarily located in areas of the State with gaming facilities. The statute requires that 1.5% of the proceeds of video lottery terminals (VLT) at authorized locations across the State be deposited in the Small, Minority, and Women-Owned Business Account (SMWOBA).
- ***Maryland Industrial Development Financing Authority:*** This program is designed to provide financing support to manufacturing, industrial, and technology businesses. The program provides the support by partnering with private-sector financing by issuing bonds and providing credit enhancements that increase access to capital for small and midsize companies.
- ***Economic Development Opportunities Program Fund (Sunny Day Fund):*** This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations that create or retain substantial numbers of jobs and where considerable private investment is leveraged. The Sunny Day Fund is a fund under the State Reserve Fund.

Types of Financing Assistance

Commerce's business assistance may take the form of investments, loans, conditional loans and grants, grants, and tax credits.

- **Investments:** Commerce 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:** Commerce 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. Commerce treats conditional grants the same as conditional loans, but in some cases, a company may not want to account for Commerce 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 are attached. Commerce does not often use this form of assistance.
- **Tax Credits:** The department administers several tax credit programs including the Biotechnology Investment Incentive 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; the Cybersecurity Investment Incentive Tax Credit, the Film Production Activity Tax Credit, and the Research and Development Tax Credit. Only three programs, the Biotechnology Investment Tax Credit, the Cybersecurity Investment Incentive Tax Credit, and the Film Production Activity Tax Credit are budgeted within the department's appropriation.

Performance Analysis: Managing for Results

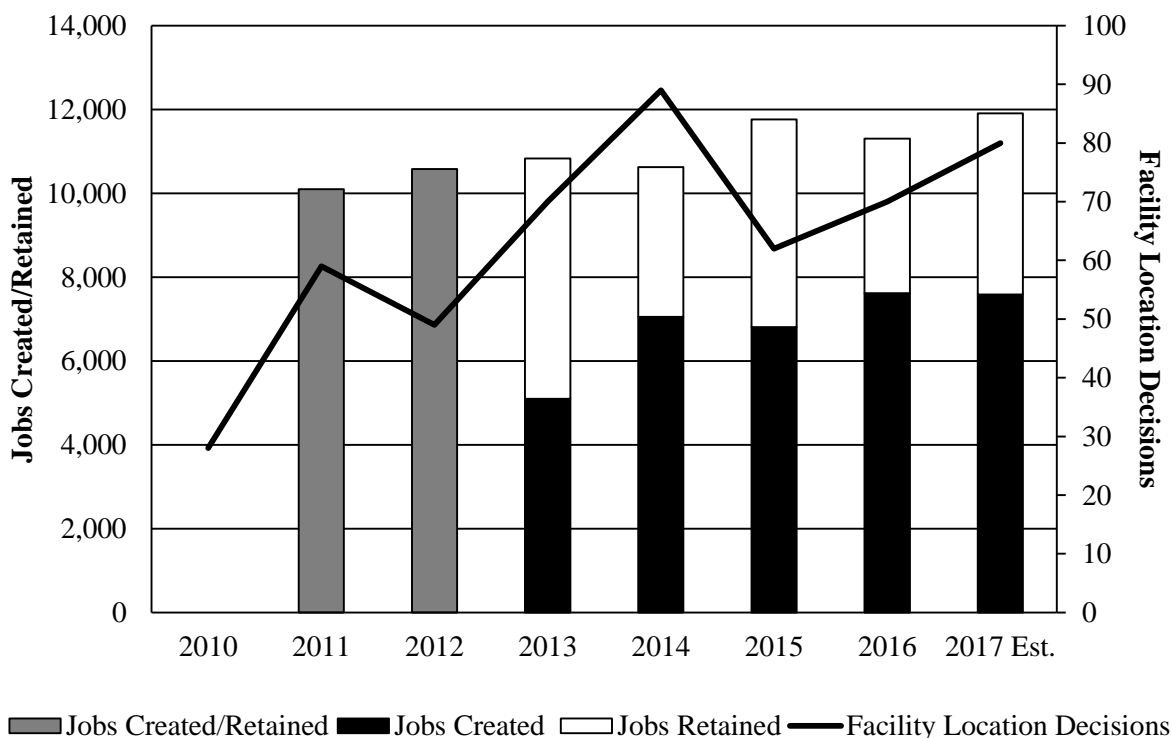
1. Department Reports Jobs Created and Retained

The department aims to develop and maintain a pipeline of projects that result in facility location decisions and other projects that create or retain jobs. A facility location decision is defined as a statement by a top-level executive indicating a company's intention to locate in Maryland or to remain

or expand in Maryland after considering potential locations outside the State and after intervention by the department. That intervention can include assistance related to financing, workforce training, marketing, permitting, or technical assistance.

Exhibit 1 shows the number of facility location decisions and the number of jobs created or retained. At the encouragement of the Department of Legislative Services (DLS), the department began to separately report on jobs created versus jobs retained in fiscal 2013. According to the data, the department increased the number of jobs created by 11.8% in fiscal 2016, but jobs retained declined by 25.5%. It is expected that this measure would fluctuate based on the economy and based on the size and scope of individual projects. Examples of jobs that have been counted in this measure in 2016 include 1,000 jobs created at Amazon in Baltimore City; 350 jobs created and 230 jobs retained at Tenable Network Security, Inc. in Howard County; and 150 jobs created and 330 jobs retained at Thompson Creek Window Company in Prince George’s County.

Exhibit 1
Department of Commerce
Select Performance Measures
Fiscal 2010-2017 Est.



Source: Governor’s Budget Books, Fiscal 2015-2016; Department of Budget and Management

According to the U.S. Bureau of Labor Statistics, the Maryland economy created 43,007 jobs in fiscal 2016. Commerce reports that it had a role in the creation of 7,616 jobs in that same timeframe. That represents 17.7% of all jobs created in the State. This is remarkable given that Commerce’s total budget comprises approximately 0.03% of Maryland’s gross State product.

2. New Measure on Workforce Training

Although more typically the purview of the State’s workforce development agency (Department of Labor, Licensing, and Regulation (DLLR)), Commerce has expanded its responsibilities related to workforce training. Commerce is now reporting on the performance of the newly created WorkSmart program. The program is a collaboration with DLLR and the Maryland Association of Community Colleges and is designed to partner the community colleges with local employers to build customized training.

A new Managing for Results (MFR) objective states that the department strives to develop customized training, workforce, and apprenticeship programs for individual businesses and industries. It projects that 35 companies will utilize the new program in fiscal 2017. Further, it expects that number to grow to 50 companies in fiscal 2018.

It is not clear how this program either complements or diverts from the State’s flagship industry-driven workforce development program – Employment Advancement Right Now housed under DLLR. Nor is it clear how the program interacts, if at all, with Commerce’s existing workforce training grant program – the Partnership for Workforce Quality (PWQ). Community colleges have long responded to workforce training needs of the business community. For example, Anne Arundel Community College has a program specifically designed to address the needs of the new casino industry in Maryland. Therefore, it is uncertain how much value can be added by the WorkSmart program. It should be noted that the department is not committing any funds to the program, just a small amount of staff time.

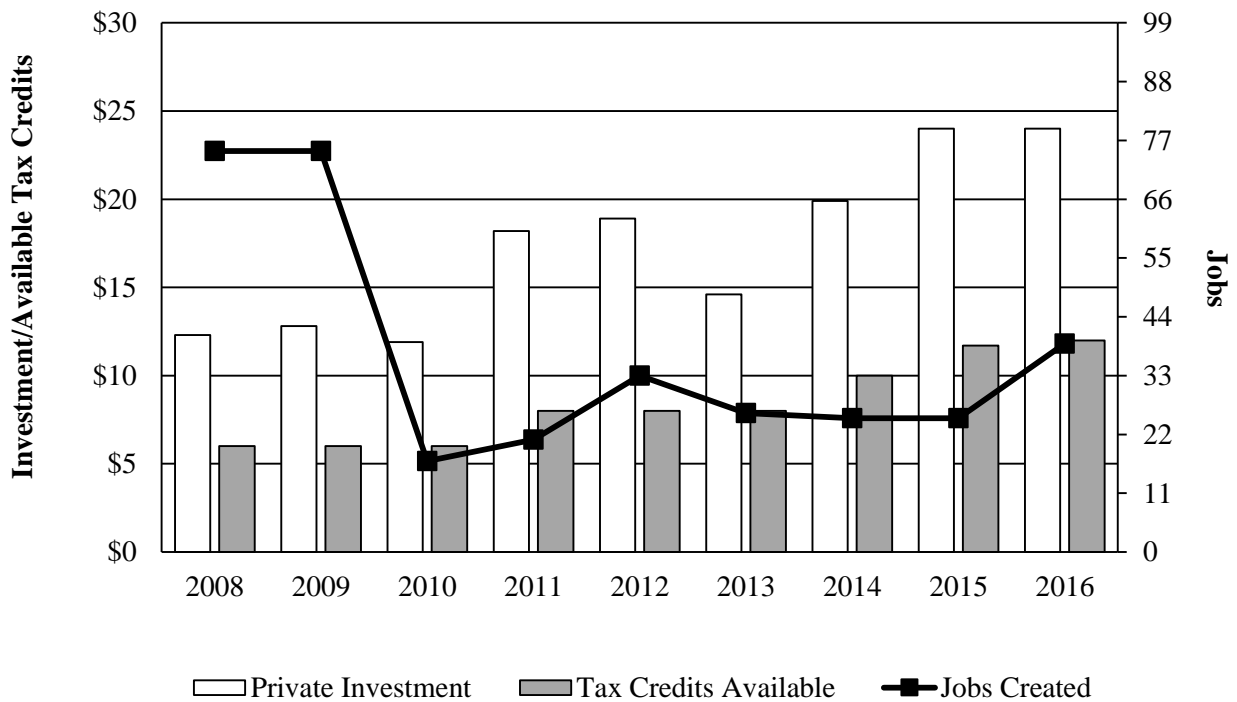
3. Biotechnology Investment Incentive Tax Credit

The Maryland Biotechnology Investment Incentive Tax Credit was established as an income tax credit for investors as an incentive to invest in qualified biotechnology firms. To be a qualified firm, the company must meet specified criteria, including a headquarters and base of operation in Maryland and fewer than 50 employees.

The department reports that the tax credit is a highly successful program and a “key industry incentive that supports Maryland’s robust biotechnology industry.” Applications for the credit have historically exceeded that available funding. However, since the increase to \$12 million in fiscal 2015, demand has closely met the supply of funding. Despite the popularity of the program, it does not appear that the tax credit has helped to spur many direct jobs. According to the department’s MFR submission, in fiscal 2016, for the \$12 million in appropriations for the credit, qualified companies created 39 jobs. That equates to over \$307,000 per job.

Exhibit 2 shows the history of job creation under the credit. The department advises that job performance is not a precondition for selection or approval of qualified investors or companies. The department further advises that the goal of the program is not job creation but to stimulate the growth of a strategic industry sector.

Exhibit 2
Biotechnology Investment Incentive Tax Credit
Selected Performance Measures
Fiscal 2008-2016
(\$ in Millions)

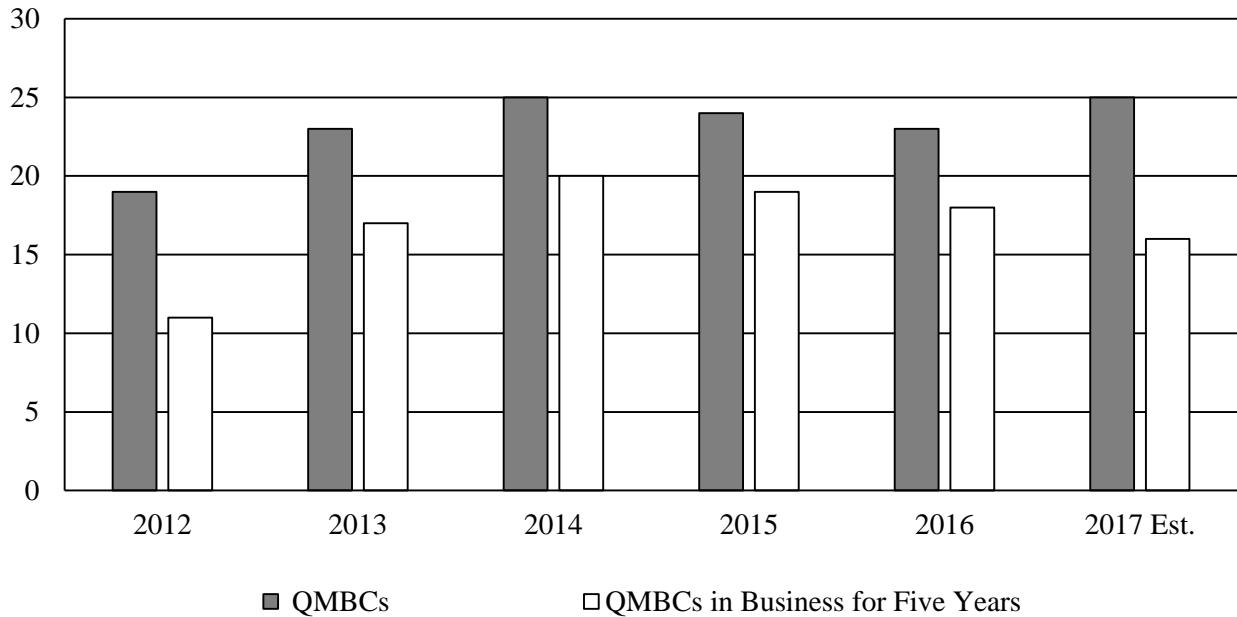


Source: Governor’s Budget Books: Fiscal 2010-2018

In this light, it would be appropriate to review the performance of the program using different measures. The department has recently begun reporting on the number of qualified Maryland biotechnology companies that have received a tax credit and have remained viable in Maryland for five years or more. **Exhibit 3** shows the number of companies getting investments in each year and the number of companies that have been in business for five years or more. This is based on a survey from participating companies so the data may not be exhaustive. According to the department, they survey companies a year after they have been awarded the incentive. It should be noted that this might not be the best indicator of long-term company performance, which would reflect the real goal of the

program – a robust biotechnology sector. For example, perhaps the department should survey companies that received an incentive five years ago – as opposed to surveying the companies one year following the investment.

Exhibit 3
Biotechnology Investment Incentive Tax Credit
Business Longevity
Fiscal 2012-2017 Est.



QMBC: Qualified Maryland Biotechnology Company

Source: Governor’s Budget Books, Fiscal 2010-2016; Department of Budget and Management

It should be noted that the Biotechnology Investment Incentive Tax Credit will be subject to the Tax Credit Evaluation Act during the 2017 interim.

Fiscal 2017 Actions

Proposed Deficiency

The fiscal 2018 budget includes several fiscal 2017 deficiencies that obscure the underlying change in the department’s budget. Most significantly, the allowance includes a \$20 million general

T00 – Department of Commerce

fund deficiency under the Economic Development Opportunities Fund, otherwise known as the Sunny Day Fund. The purpose of the deficiency is to provide a retention incentive to Marriott International, Inc. for its headquarters facility in Montgomery County. Funds would be allocated in four equal installments over four years. The company would be required to retain at least 3,250 full-time employees in the county and invest at least \$500 million in facility purchase and construction costs. Before the department can disburse this incentive, approval must be obtained from the Legislative Policy Committee (LPC). DLS will prepare a comprehensive analysis on the proposed use of the Sunny Day Fund for the benefit of LPC.

This proposal is similar in structure and size to the Sunny Day incentive provided to the Northrop Grumman Corporation, which was included as a fiscal 2016 deficiency in the fiscal 2017 allowance. Based on a delay in the timing of approvals for this incentive, two \$5 million installments will be made to the company during fiscal 2017. The first installment for the Marriott incentive is not included in the allowance. It is expected that, if approved, the first installment will be provided in a budget amendment during the course of the fiscal year.

Prior to the Northrop Grumman incentive, the Sunny Day fund had been used sparingly in recent years. **Exhibit 4** shows that before 2016, the fund had not received general funds since 2002. Special funds have also declined considerably since 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.

It should also be noted that the Administration is also offering tax credit assistance to Marriott International, Inc. through the Businesses that Create New Jobs tax credit (estimated at \$6 million). Additionally the department will provide a \$2 million conditional loan from the MEDAAF to the company. Further, Montgomery County is providing significant direct financial assistance and tax credit incentives as well.

The fiscal 2018 budget also includes a fiscal 2017 special fund deficiency of \$500,000 under the Maryland E-Innovation Initiative to replace general funds that were reduced in the cost containment actions in November 2016. Special funds are derived from a portion of the admissions and amusement (A&A) tax. Similarly, an additional fiscal 2017 special fund deficiency provides \$100,000 in special funds for the Military Personnel and Service-Disabled Veteran Loan Program. This also replaces general funds that were reduced due to cost containment.

Exhibit 4
Sunny Day Fund Annual Appropriations
Fiscal 2000-2018 Allowance

<u>Fiscal Years</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	0	2,000,000
2013	0	1,071,429
2014	0	1,071,429
2015	0	0
2016	20,000,000	0
2017 Working	0	5,000,000
2017 Deficiency	20,000,000	5,000,000
2018 Allowance	0	5,000,000

Source: Department of Commerce; Department of Legislative Services

Cost Containment

At the November 2016 Board of Public Works (BPW) meeting, Commerce's fiscal 2017 appropriation was reduced by \$2.75 million in general funds. Specifically, the department's entire appropriation for the Cybersecurity Investment Incentive Tax Credit Program was deleted (\$2.0 million). This was possible due to low demand and the availability of fund balance under the program. Additionally, \$500,000 was reduced under the Maryland E-Innovation Initiative in anticipation of available special funds. The funds are used for grants for higher education endowments to fund research in fields of study that offer promising economic impact. General funds were also reduced in anticipation of special fund availability under the Military Personnel and Service-Disabled Veteran

Loan program (\$100,000) as loans are repaid to the program. Finally, the department relinquished an additional \$150,000 in general funds under the Maryland Tourism Development Board.

Section 20 Position Abolitions

The fiscal 2017 budget bill included a provision that reduced 657 positions statewide and cut \$20 million in general funds and \$5 million in special funds but did not specify which positions. In June, a BPW item enumerated each reduced position and allocated a funding reduction. Commerce was reduced by 6 positions including a senior executive position, a budget position, a research analyst, an office secretary, a tax credit specialist, and a community arts position. The fiscal 2017 salaries for these positions total over \$389,000, primarily in general funds. However, the department was only required to forgo \$150,000 in general funds.

Proposed Budget

After adjusting for fiscal 2017 deficiencies, reversions, and contingent reductions, the fiscal 2018 allowance decreases by \$20.5 million, or 11.8%, as shown in **Exhibit 5**. Significant fiscal 2017 deficiencies mask the underlying growth in the fiscal 2018 allowance. Absent deficiencies, general funds actually grow by \$7.7 million, and special funds increase by \$5.9 million in fiscal 2018.

Exhibit 5 Proposed Budget Department of Commerce (\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2016 Actual	\$92,002	\$47,975	\$1,863	\$107	\$141,947
Fiscal 2017 Working Appropriation	109,063	54,214	10,221	206	173,703
Fiscal 2018 Allowance	<u>97,086</u>	<u>54,509</u>	<u>1,661</u>	<u>0</u>	<u>153,257</u>
Fiscal 2017-2018 Amount Change	-\$11,976	\$296	-\$8,560	-\$206	-\$20,446
Fiscal 2017-2018 Percent Change	-11.0%	0.5%	-83.7%	-100.0%	-11.8%

Where It Goes:

Personnel Expenses

Turnover adjustments	-\$114
Employee retirement system	-128

T00 – Department of Commerce

Where It Goes:

Regular earnings (including annualization of Section 20 reductions)	-165
Employee and retiree health insurance	-264
Other fringe benefit adjustments	-70

Other Changes

Maryland Economic Development Financing Authority and Fund.....	10,050
Small, Minority, and Women-Owned Business Account.....	5,716
Cybersecurity Investment Incentive Tax Credit Program	2,000
Grants under the Maryland State Arts Council.....	1,782
Recapitalization of the Partnership for Workforce Quality	1,050
Increase in contractual staff.....	289
Net increase in various economic development organization grants.....	283
Restoration of cost containment reduction to tourism grants	150
Military Personnel and Service-Disabled Veteran Loan Program.....	100
Not for Profit Development Fund.....	20
Decline in departmentwide advertising	-116
Loss of federal funds – decline in international trade shows and grants	-776
Preservation of Cultural Arts.....	-1,000
Sunny Day installment.....	-5,000
Film Production Rebate Program	-6,510
Federal funds under the State Small Business Credit Initiative.....	-7,829
Removal of one-time Sunny Day deficiency.....	-20,000
Other miscellaneous adjustments	86

Total **-\$20,446**

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

Personnel

The fiscal 2018 allowance reflects 193 full-time equivalents (FTE), a constant number from fiscal 2017. However, funding for these positions declines by over \$741,000. Several high-level positions were vacated in fiscal 2017 and have been reclassified downward in the fiscal 2018 allowance. Additionally, the department lost turnover funding in the allowance despite a decline in its vacancy rate. Between December 2015 and December 2016, the department's vacancy rate fell from 11.06% to 6.22%. However, the budgeted turnover rate increases from 4.85% in the fiscal 2017 working appropriation to 5.5% in the fiscal 2018 allowance. This results in a decline of approximately \$114,000 in personnel funding. It should be noted that the vacancy rate improved, in part, because of the position reductions under Section 20 of the fiscal 2017 budget bill as discussed earlier.

Though the regular FTEs are constant in the allowance, funding for contractual staff continues to increase. The allowance reflects an increase of 3.62 contractual FTEs and a related increase of approximately \$289,000 in general and special funds. The majority of this increase will be dedicated to further increasing the staffing of the Welcome Centers that are housed in rest stops across the State. Cost containment efforts in 2009 forced the closure of several of the centers. Since that time, the department has taken steps to reopen the centers, with the latest being Sideling Hill on I-68. All centers have reopened with the exception of two that were taken over by the respective counties (Worcester and St. Mary's counties).

Across-the-board Reductions

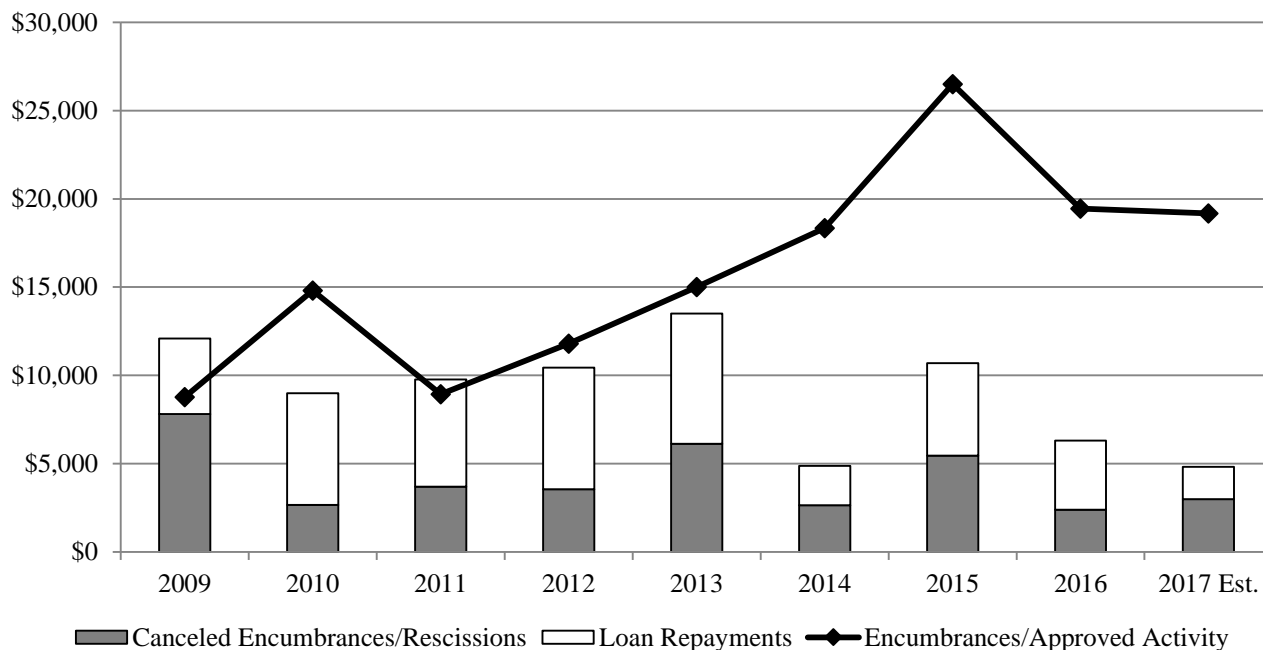
The fiscal 2018 budget bill includes a \$54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. This agency's share of these reductions is \$60,285 in general funds, \$19,521 in special funds, and \$1,606 in federal funds. This action is tied to a provision in the Budget Reconciliation and Financing Act (BRFA) of 2017.

Financial Assistance Programs

MEDAAF

The MEDAAF is the department's primary and most flexible tool for business financial assistance. The fiscal 2018 allowance includes \$23.9 million in general funds and \$6.2 million in special funds. This represents an increase of \$10.0 million in general funds. Fiscal 2018 marks the seventh year of a recapitalization effort for this fund. After relying on special funds for several years (fiscal 2007 through 2011), the department has made a concerted effort to recapitalize the fund with general funds. Between fiscal 2012 and the fiscal 2018 allowance, the fund has received \$61.5 million in general funds. This allows the department to increase its activity, but it also affords it more flexibility in the types of assistance provided. With regular general fund infusions, the department does not have to rely as heavily on special funds. Special funds are largely a result of loan repayments. With additional general funds, the department can increase conditional assistance, which may not have to be repaid if the company meets certain performance goals. This shift in assistance is demonstrated in **Exhibit 6**.

**Exhibit 6
MEDAAF Encumbrances and Repayments
Fiscal 2009-2017 Est.
(\$ in Thousands)**



MEDAFF: Maryland Economic Development Assistance Authority and Fund

Source: Department of Commerce

Exhibit 6 shows the activity under the program and the amount of canceled activity and repayments to the fund. The department has made a concerted effort to increase the amount of business assistance provided under the program. It has also scaled back the number of awards that have been canceled or rescinded. It also shows that loan repayments are considerably less than in prior years, indicating an increase in assistance that is forgiven rather than repaid.

The increase in forgivable assistance also means that the department continues to project near depletion of the MEDAAF despite the increase in general funds. **Exhibit 7** shows the fund balance summary for the MEDAAF for fiscal 2015 through an estimate for fiscal 2018. The department expects that the fund balance will reach a low of \$2,000 by the end of fiscal 2017. The department currently has a pipeline of 67 MEDAAF projects that are being disbursed, encumbered, in process, or in discussion that total \$57.2 million. Funding for the projects would span over fiscal years depending on the timing of the discussions.

Exhibit 7
Department of Commerce
Maryland Economic Development Assistance and Authority Fund
Fund Balance Worksheet
Fiscal 2015-2018 Est.
(\$ in Thousands)

	<u>Actual</u> <u>2015</u>	<u>Actual</u> <u>2016</u>	<u>Est.</u> <u>2017</u>	<u>Est.</u> <u>2018</u>
Beginning Balance	\$12,232	\$5,337	\$234	\$2
Revenues				
General Funds	\$7,423	\$7,273	\$13,523	\$23,873
Investment Income	393	405	534	472
Interest Income	357	182	219	156
Loan Repayments	5,246	3,912	1,823	2,030
Loan Recoveries and Grant Repayments	17	69	2,633	1,694
Canceled Prior Year Encumbrances	5,450	2,398	3,000	3,000
Brownsfield Local Property Tax Cont.	3,186	3,295	667	1,717
Other Income	552	386	318	417
Total Revenues	\$22,624	\$17,920	\$22,717	\$33,359
Total Funds Available	\$34,856	\$23,257	\$22,951	\$33,361
Expenditures				
Encumbrances/Approval Activity – Other	\$26,500	\$19,458	\$19,175	\$2,9500
Rescissions of New Approvals	0	0	0	0
Operating Expenses	376	515	690	684
Indirect Expenses	2,643	3,050	3,084	2,956
Transfers to Rural Broadband Fund	0	0	0	0
Transfer to Nano-biotechnology Fund	0	0	0	0
Restricted Appropriation	0	0	0	0
Prior Period Operating/Indirect Adjustment	0	0	0	0
Total Expenditures	\$29,519	\$23,023	\$22,949	\$33,140
Ending Balance	\$5,337	\$234	\$2	\$221

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

Source: Governor's Budget Books, Fiscal 2018

T00 – Department of Commerce

It should be noted that special funds within the MEDAAF are used to defray other departmental operating costs, shown as indirect expense in the fund balance summary. The department uses the special funds for a variety of its financing programs to pay the centralized costs required to administer the programs.

The department has introduced HB 161 to rename and restructure the MEDAAF into the Advantage Maryland Fund. The bill would alter many of the existing provisions to give the department more flexibility, thereby increasing the assistance from the fund. For example, the bill would allow the fund to make working capital loans and increases the limit on the conditional loans from \$2 million to \$10 million.

SMWOBA

Statute requires that 1.5% of the proceeds from VLT authorized locations across the State be deposited in the SMWOBA. The account is designed to provide capital investments and loans for small, minority, and women-owned businesses that are located primarily in the areas of the State with gaming facilities. The fiscal 2018 allowance includes \$16.9 million for this program based on September 2016 estimates from the Board of Revenue Estimates. This represents a \$5.7 million increase from the fiscal 2017 working appropriation. This is an exaggerated increase because \$2.5 million of the fiscal 2017 appropriation was transferred to the Department of Housing and Community Development (DHCD) for relief efforts in the aftermath of historic flooding in Ellicott City. Absent this transfer, the program actually grows by \$3.2 million. This program will be discussed in further detail under the Issues section of this analysis.

Maryland Industrial Development Financing Authority

The fiscal 2018 allowance reflects a \$7.8 million decrease in federal funds under the Maryland Industrial Development Financing Authority. The funds were made available to the department due to the U.S. Department of the Treasury's State Small Business Credit Initiative. The funds represents the third phase of a \$23.0 million allocation to Maryland. The fiscal 2017 funds have recently been transferred to the Maryland Venture Fund and to the Maryland Technology Development Corporation (TEDCO) in keeping with the recent re-organization, which consolidated early-stage financial assistance programs under TEDCO.

Cybersecurity Investment Incentive Tax Credit

The Cybersecurity Investment Incentive Tax Credit provides incentives to early-stage Maryland-based companies that create cybersecurity products. The program has a mandated annual appropriation of \$2 million. However, at the November 2016 BPW meeting, Commerce's fiscal 2017 appropriation was reduced by \$2 million – the department's entire appropriation for the Cybersecurity Investment Tax Credit Program. This was possible due to low demand and the availability of a small amount of fund balance under the program.

The department is confident that demand will improve under this program, especially if legislation is enacted that alters the eligibility of the program. HB 378/SB 318 is an

Administration-sponsored bill that alters the credit to mirror the highly utilized Biotechnology Investment Tax Credit. Specifically, the bill will allow investors in qualified Maryland cybersecurity companies to claim the credit, rather than the business itself.

PWQ

PWQ provides matching grants for small and midsize manufacturing and technology companies to upgrade skills of employees. Funds may be used for curriculum development, course materials, and instructor salaries and expenses. Funds are capped at \$200,000 per year per employer. The fiscal 2018 allowance includes \$1.05 million in general funds and \$50,000 in special funds for the program. This program has not been funded at any meaningful level since the cost containment initiative in fiscal 2009.

Economic Development Opportunity Fund

The Sunny Day fund provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined, in part, as those situations that create or retain substantial numbers of jobs and where considerable private investment is leveraged.

The fiscal 2018 allowance includes a fiscal 2017 deficiency appropriation of \$20 million in general funds for a retention incentive for Marriott International, Inc. The allowance also reflects \$5 million in special funds as a fiscal 2017 deficiency and \$5 million in the fiscal 2018 allowance for the second and third installment to Northrop Grumman Corporation for a separate retention incentive approved in 2016.

Other Financial Assistance Programs

The fiscal 2018 allowance includes \$500,000 in general and special funds for the Military Personnel and Service-Disabled Veteran Loan Program. This represents an increase of \$100,000 in general funds. After several years of underutilization, this program has begun to increase its activity and the department reports that current funding is fully subscribed.

Maryland Marketing Partnership

Chapter 141 of 2015 established a public-private marketing entity to create a branding strategy for the State, market the State's assets to out-of-state businesses, recruit out-of-state businesses to locate and grow in the State, and foster public-private partnerships that encourage the location and development of new businesses in the State. A board of directors has been appointed, consisting of various members of State government and private industry. The fiscal 2018 allowance includes \$1 million in general funds for the initiative, matching the initial funding provided in fiscal 2017. The partnership has contracted with an advertising agency to develop a branding strategy for the State. Further, the partnership has begun its fundraising effort to supplement the State financial support of the new marketing effort. As of January 2017, the department reports that the partnership has corporate commitments of \$1 million (over three years).

The department was able to commit some of its own grant funding to the effort – \$400,000 of fiscal 2016 funding. Conversely, other funding for advertising is able to decrease because of the partnership’s activities, saving approximately \$116,000 departmentwide. The department is able to target its remaining advertising funds toward other departmental priorities such as cyber and biotechnology efforts and trade shows.

Tourism, Film, and the Arts

Maryland State Arts Council

By statutory mandate, general funds allocated to the Maryland State Arts Council (MSAC) are required to grow each year by the expected percentage of growth in general fund revenues.

Chapter 145 of 2016 increased available funding to the Arts Council by changing the distribution of A&A tax that was distributed to the special fund for the Preservation of Cultural Arts Program (POCA). The legislation specified that revenue attributable to a 5% State A&A tax rate on electronic bingo and electronic tip jars be disbursed so that *up to* an aggregate amount of \$1.0 million in each fiscal year goes to the special fund for POCA and the remainder is distributed to MSAC, instead of *all* of the revenue going to the special fund. Any funds distributed to MSAC from the A&A tax must be included in MSAC’s prior fiscal year appropriation for purposes of calculating the required mandated general fund appropriation.

The fiscal 2018 allowance for MSAC reflects an increase of \$1.7 million. In calculating the mandated increase in funding, the Department of Budget and Management (DBM) assumed a \$2.0 million disbursement to MSAC from POCA funding in fiscal 2017. Using this increased funding, the inflated funding level for fiscal 2018 would be \$20.1 million in general funds. If calculated using the formula prior to Chapter 145, fiscal 2018 funding would have been \$18.1 million. However, DBM used the special funds from the A&A tax (\$2.0 million) to fulfill the increased mandate as opposed to general funds. Accordingly, the allowance includes \$18.1 million in general funds plus \$2.0 million in POCA special funds (and other miscellaneous special funds of \$300,000).

There is room for interpretation in the provisions of Chapter 145. However, it is likely that the legislative intent was to increase general funds to MSAC, using the special funds in the base and not to use special funds to fulfill the increased mandate. **Exhibit 8** compares the DBM interpretation of the new mandate (as is represented in the fiscal 2018 allowance) and the interpretation by DLS. First, DLS assumes the fiscal 2017 allowance is supplemented by \$1 million in POCA funds. This reflects the existing working appropriation. DBM assumes \$2 million based on a potential future budget amendment that would allocate the remaining \$1 million of POCA funds to MSAC.

Second, DLS assumes that the increased funding must be used to specifically increase the following fiscal year’s general fund allowance. Conversely, DBM assumes that it may use special funds to fulfil the increase in funding. As such, DLS asserts that general funds are underbudgeted in the fiscal 2018 allowance.

Exhibit 8
Chapter 145 of 2016
Interpretation of Mandated Growth
Maryland State Arts Council
(\$ in Thousands)

	<u>DBM</u>	<u>DLS</u>	<u>Difference</u>
General Funds in Fiscal 2017	\$17,439.7	\$17,439.7	\$0.00
POCA 2017 Transfer	2,000.0	1,000.0	-1,000.00
Base for Growth Rate	19,439.7	18,439.7	-1,000.00
Growth Rate	3.36%	3.36%	0.00
New Base	\$20,092.9	\$19,059.3	-\$1,033.60
General Funds for Fiscal 2018	\$18,092.9	\$19,059.3	\$966.40
Special Funds – 2018 POCA	2,000.0	2,000.0	0.00
Subtotal (Fiscal 2018 Allowance)	20,092.9	21,059.3	966.40
Other Special and Federal Funds	916.3	916.3	0.00
Total (Fiscal 2018 Allowance)	21,009.2	21,975.6	966.40

DBM: Department of Budget and Management

DLS: Department of Legislative Services

POCA: Preservation of Cultural Arts Program

Source: Department of Budget and Management; Department of Legislative Services

It should be noted, however, that in the out-years, this interpretation of legislative intent will still significantly increase the amount of general fund increases, outpacing the rate of growth in most other State programs. **Exhibit 9** shows the growth rate comparisons. The exhibit only assumes POCA special funds of \$1 million in fiscal 2017 as that represents the current budgeted level (not the assumed \$2 million level of DBM). Even at this level, the new formula would increase general funds at a much higher rate than expected general fund growth. For example, DLS projects that general funds would grow by 14.0% in fiscal 2019 compared to revenue growth of 3.2%.

Exhibit 9
Maryland State Arts Council
Funding Growth – Chapter 145 of 2016
Fiscal 2017-2022
(S in Thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
General Funds	\$17,439.7	\$19,059.3	\$21,739.5	\$24,601.3	\$27,580.2	\$30,707.2
POCA	1,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
New Base	18,439.7	21,059.3	23,739.5	26,601.3	29,580.2	32,707.2
GF Growth Prior to Chapter 145		\$18,067.6	\$18,651.1	\$19,328.2	\$20,039.5	\$20,803.0
GF Growth Rates Prior to Chapter 145		3.36%	3.23%	3.63%	3.68%	3.81%
GF Growth Under Chapter 145		\$19,059.3	\$21,739.5	\$24,601.3	\$27,580.2	\$30,707.2
GF Growth Rates Under Chapter 145		9.29%	14.06%	13.16%	12.11%	11.34%
Difference		\$991.7	\$3,088.4	\$5,273.1	\$7,540.7	\$9,904.2

GF: general fund

MSAC: Maryland State Arts Council

POCA: Preservation of Cultural Arts Program

Source: Department of Legislative Services; Board of Revenue Estimates

It should be noted that the BRFA of 2017 includes a provision that would limit mandated growth to the rate of expected general fund growth minus 1%. This would likely affect the funding for MSAC under either the DBM or the DLS interpretation of the existing mandate.

Film Production Activity Tax Credit

The fiscal 2018 allowance includes \$5.0 million in general funds for the Film Production Activity Tax Credit program. This represents a decrease of \$6.5 million from the fiscal 2017 working appropriation.

In fiscal 2015, the General Assembly enacted Chapter 486, which established a mechanism for including the credits in the annual budget. The bill established a Maryland Film Production Activity Tax Credit Reserve Fund. The total amount of initial credit certificates issued by Commerce in each fiscal year cannot exceed the amount appropriated to this fund in the State budget. Although the legislation did not establish a mandate, it stated the intent of the General Assembly that the appropriation to the fund is equal to the amount that Commerce reports as necessary to (1) maintain the

current level of film production activity in the State; and (2) attract new film production activity to the State. Commerce is required to report these amounts to the Governor and General Assembly by July 1 of each year.

The department did submit its report in July 2016. It concluded that it would need \$15.8 million in its film incentive program to maintain the current level of film production and \$30.0 million in order to attract new productions to the State. However, as previously mentioned, the fiscal 2018 allowance includes only \$5.0 million for the program. The entire allowance would be dedicated to the production of the fifth season of Netflix's House of Cards. This amount is less than the same production received for previous seasons of the show. For example, the entire fiscal 2017 appropriation of \$11.5 million is dedicated to the production of the fourth season of the series.

Other Budget Issues

Chapter 141 of 2015 (the Maryland Economic Development and Business Climate Commission (Augustine Commission)) expressed the legislative intent of the General Assembly to transfer activities of the BioMaryland Center to TEDCO in order to align all early-stage technology assistance in one location. Grant funds under the BioMaryland Center were transferred as intended. However, the department retained the nongrant funding and renamed the center as the Office of Biohealth.

In response, the General Assembly included fiscal 2017 budget bill language to restrict \$400,000 in general funds under the Office of Biohealth to be transferred to TEDCO. Funds would be used to retain licenses and access to four market research databases that provide critical market information to Maryland biotechnology entrepreneurs. The Administration chose not to transfer the funds. Instead, the funds are reverting to the General Fund in fiscal 2017. TEDCO is funding the databases out of its own nonbudgeted resources.

The funds that were reverted (\$400,000) remained in the fiscal 2018 base allowance. The department advises that the funds have been largely disbursed to other departmental programs to fund other priorities, including a grant to the Veterans Institute for Procurement.

It should also be noted that the Office of Biohealth currently has 2 vacancies within its total 6 allotted positions.

Issues

1. Report on the Improvements to the Small, Minority, and Women-Owned Business Account

The fiscal 2017 budget bill included restrictive language that requested a report on the SMWOBA. Statute requires that 1.5% of the proceeds from VLT authorized locations across the State be deposited in the account, which is designed to provide capital investments and loans for small, minority, and women-owned businesses that are located primarily in the areas of the State with gaming facilities. Concerns raised by legislative auditors and by members of the General Assembly prompted a close evaluation of the program.

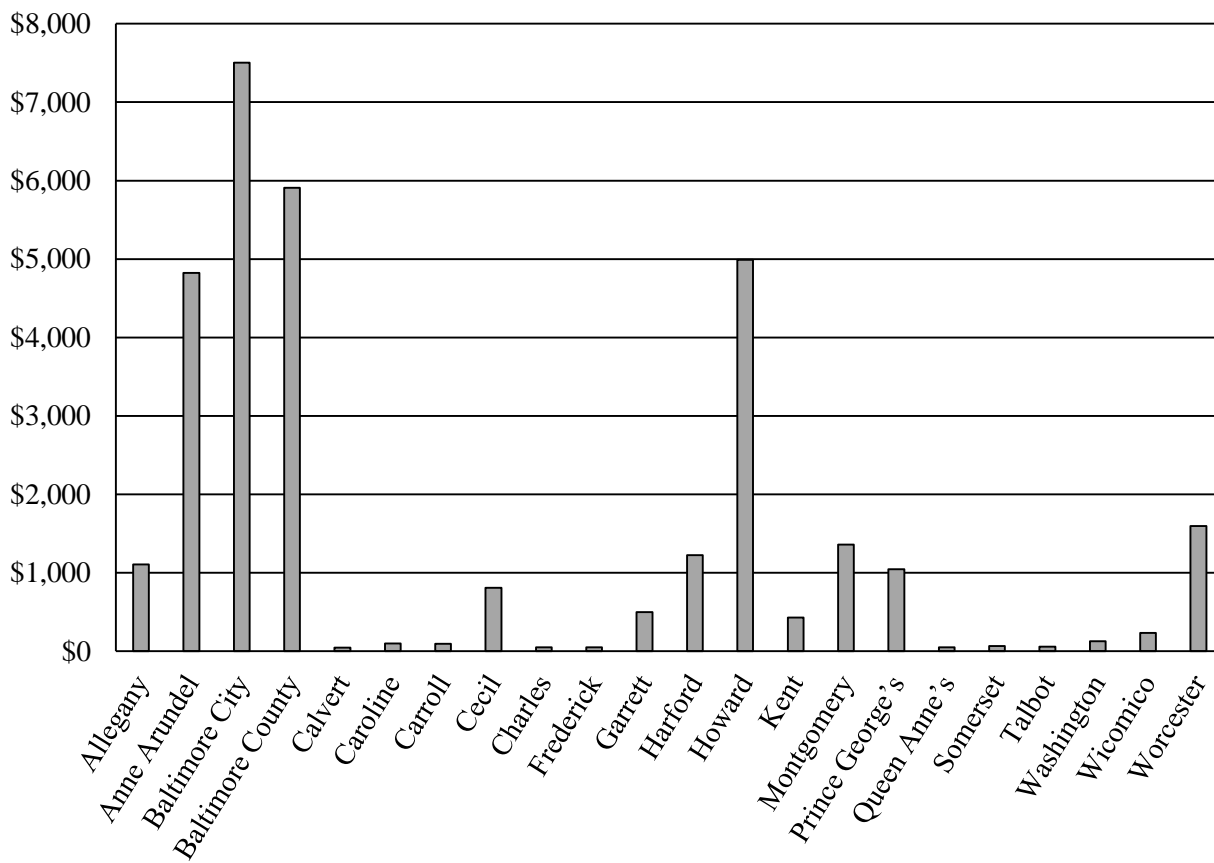
Background

In August 2015, at the request of the Senate Budget and Taxation Committee, the department prepared a report on its process for distributing the funds from the program primarily related to the geographic distribution of funds. The statute requires that 50% of the funds in the program be allocated to businesses located in the jurisdictions and communities that surround the State's gaming facilities. The statute did not define the parameters of that requirement. The department and BPW convened a workgroup to determine the legislative intent. The workgroup initially settled on target areas that are within a 10-mile radius of each of the facilities. However, it has since been expanded to include other underserved areas in the State.

Exhibit 10 shows disbursements by the fund by jurisdiction. This exhibit includes only those jurisdictions where an award was made. Two counties received no funding from the program through fiscal 2016 (Dorchester and St. Mary's counties).

In October 2015, the Office of Legislative Audits released its performance audit of the SMWOBA program. The audit contained seven findings. In general, the audit revealed that the program lacked both clear established goals and adequate oversight protocols. In addition to issues revealed in the audit, other components of the administration of the program appear to be overly cumbersome. The department, in a laudable attempt to reach as many small businesses as possible, has issued several Request for Proposals for fund managers over several years of program funding. Additionally, the use of multiple fund managers requires the maintenance of several bank accounts and multiple levels of financial reporting. Unfortunately, the use of multiple fund managers does not appear to be resulting in the desired geographic distribution of awards. Finally, fund managers are provided 8% of their award amounts for start-up expenses and are allowed to apply for reimbursement of excess expenses at the end of each calendar year. There appears to be a wide range of reimbursement requests among the contracted managers.

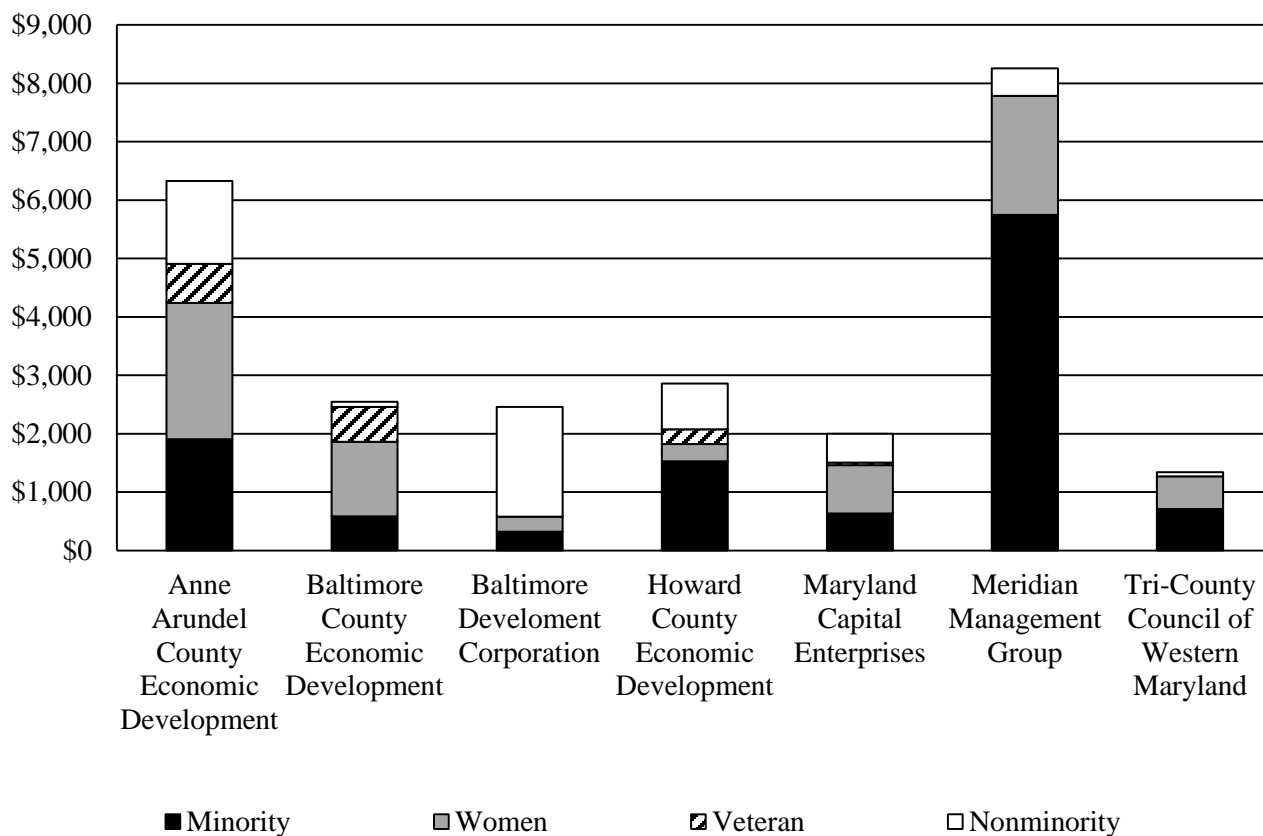
Exhibit 10
Small, Minority, and Women-Owned Business Account
Distribution by Jurisdiction
Fiscal 2014-2016
(\$ in Thousands)



Source: Department of Commerce

The program is expected to grow significantly with the opening of an additional gaming facility and as loan repayments are paid back into the fund. **Exhibit 11** shows approved activity by fund managers since the beginning of the program. An eighth fund manager has been awarded a contract. However, they did not have approved activity by the report's publication.

Exhibit 11
Small, Minority, and Women-Owned Account – Fund Managers
Approved Transactions Since Program Inception
(\$ in Thousands)



Source: Department of Commerce

Current Joint Chairmen’s Report

The department submitted its latest report in December 2016. It addresses the concerns raised in the budget bill language and in the 2015 legislative audit.

First, the report addresses concerns about lack of goals and measures for evaluating the performance of the program. The department has established goals that include increasing access to capital for small, minority, and women-owned businesses in the State, specifically in targeted areas and in key industry sectors. The program will ensure that fund managers will provide incentives to at least one veteran-owned business, one disabled-owned business, and at least two women-owned business annually. Similarly, fund managers will be asked to fund at least one investment in each of the clean energy, cyber, and manufacturing sectors.

Second, the report mentions the importance of defined terms. Both “targeted area” and “investment capital” are undefined by the statute. BPW and the department had agreed that targeted area be a 10-mile radius of a gaming facility. However, after this proved too restrictive in some areas of the State, the department has loosened this definition. But the report notes that the lack of consistency and an established definition causes confusion for the business community. Further, the report notes that investment capital be defined as loans and “patient loans,” which are loans with repayments that begin no later than five years after the initial disbursement. Fund managers are not accredited investors and cannot make other kinds of investments like equity investments.

Finally, the department has introduced department legislation as a means to rectify other administrative and oversight issues related to the program.

Current Legislation

SB 498/HB 92 is a departmental bill that proposes to transfer the authority for administering the SMWOBA from BPW to Commerce. Under the statute, BPW is responsible for the program, but a Memorandum of Understanding has ceded some of the control to Commerce. Funds are budgeted within Commerce, and the department has significant experience with business assistance programs. However, the report notes that the extra layer of bureaucracy makes it difficult and time consuming to make administrative changes.

For example, no other Commerce program requires fund managers nor requires those fund managers to maintain separate checking accounts with monthly reporting requirements. This is onerous for both the department and the fund managers. According to the report, this issue, in combination with an uneven reimbursement structure for the fund managers, could be resolved by the transfer of the program to Commerce. The department advises that if the proposed bill was passed, it would administer the program in a similar fashion to its existing programs. Specifically, the fund manager checking account requirement would be eliminated. Instead, the department would service all the loans including billing, disbursements, and compliance reporting. While this would increase the department’s responsibilities, it would also eliminate much of the reporting from and monitoring of the fund managers. This would leave fund managers free for outreach and to underwrite more loans for processing by the department. The department would allocate a flat fee to the fund managers (as opposed to a fee plus expense reimbursement).

Ellicott City Flood Relief

On July 30, 2016, a catastrophic flood caused significant damage to businesses, homes, and infrastructure in Historic Ellicott City. The following day, the Governor issued an executive order to declare a state of emergency in Howard County. State and local emergency management and public works officials worked quickly in the immediate aftermath. According to media reports, 190 residents were displaced from their homes, and 90 business were either destroyed or severely damaged. Because the most extensive damage occurred on Main Street, small retail businesses were disproportionately affected. The State decided to take a significant role in helping these small businesses to rebuild.

On August 17, 2016, BPW approved the transfer of funds from the SMWOBA to DHCD. It was also decided that DHCD would be a new fund manager only for the distribution of the transferred funds (\$2.5 million) to businesses in Ellicott City. DHCD has experience in Main Street revitalization projects and retail business assistance. This program could complement DHCD's existing Neighborhood Business Works program, and DHCD would have a visible presence in Howard County during the recovery.

In order for a new fund manager to receive \$2.5 million during fiscal 2017, existing fund managers had to forgo a portion of previously allocated funds. In fiscal 2017, there were eight fund managers located across the State. Forgone funding ranged from \$190,000 to \$414,000. It should be noted that the Howard County Economic Development Corporation is an existing fund manager and it relinquished approximately \$310,000 of its \$3.0 million allocation. In addition, DHCD was also allocated \$2.5 million from the Catastrophic Event Fund after approval from LPC.

DLS recommends that the department brief the budget committees on the SMWOBA, including the distribution of funding, the use of fund managers, and the legislation to transfer authority of the program from BPW to Commerce.

2. InvestMaryland and the Maryland Small Business Development Financing Authority

The Maryland Small Business Development Financing Authority (MSBDFFA) is designed to provide financing options for small businesses that are not able to qualify for financing from private lending institutions or owned by socially and economically disadvantaged persons. Specifically, the program provides funding for working capital; supplies and materials; machinery and equipment acquisition; construction or renovation; franchise fees; and bid, performance, and payment bonds assistance.

Chapter 409 of 2011 created the InvestMaryland program, a State-supported venture capital program that was funded through an auction of tax credits against the insurance premium tax for insurance companies. The majority of the funding was provided to private venture companies and to the State's Maryland Venture Fund. The legislation also provided a three-year revenue stream for MSBDFFA's Equity Participation Program. This program provides equity financing to help companies scale up to the next level, for franchising opportunities, or business acquisition. The program received over \$6.8 million over fiscal 2012, 2013, and 2014.

The majority of InvestMaryland funding was transferred to TEDCO by Chapter 141 of 2015. As such, the annual reporting requirement was transferred as well. The annual report detailed the investment history of the program, including details of invested companies and jobs created. The report also shows the InvestMaryland activity under MSBDFFA. As shown in **Exhibit 12**, the program was only able to invest \$900,000 of the total \$6.8 million in funding. In fiscal 2016, MSBDFFA only invested \$47,000 in one company. Over \$5.9 million remains to be invested. The fund balance summary submitted with the fiscal 2018 budget submission shows no planned investments from the InvestMaryland funding for fiscal 2017 and 2018. However, the department advises that it has a

pipeline of \$2.3 million for future investments. This seems ambitious given the performance since fiscal 2012. In contrast, the Maryland Venture Fund, under the purview of the department and of TEDCO starting in fiscal 2016, has invested about 79% of its available InvestMaryland funding.

Exhibit 12
Maryland Small Business Development Financing Authority
InvestMaryland Funding

	<u>Total Funds</u>	<u>Total Capital Invested through 2016</u>	<u>Fair Market Value</u>	<u>Returns on Investments</u>	<u>Remaining Funds to Be Invested</u>	<u>% Invested</u>
MSBDFA	\$6,867,500	\$900,000	\$900,000	\$6,785	\$5,967,500	13%
Maryland Venture Fund	20,602,500	16,217,388	14,013,193	1,312,462	4,385,112	79%

MSBDFA: Maryland Small Business Development Financing Authority

Source: Maryland Venture Fund Annual Report Fiscal 2016

Venture investments are not historically the types of investments that comprise MSBDFA's portfolio. In fact, the department acknowledges that the program has challenges in identifying potential early-stage companies in which to invest.

This is in contrast to the program's performance under its other capabilities. For example, the department's fiscal 2016 Jobs Development Act report shows that the program provided financing to 26 companies totaling \$7.8 million. The program's contractor, Meridian Management Company, is also a fund manager under the SMWOBA. Over the life of this program, the contractor has provided 89 loans to small companies valued at over \$11.2 million.

It is clear that the Maryland Venture Fund is better equipped to identify the types of venture investments for which the InvestMaryland program was designed. DLS recommends that a provision be amended to the BRFA of 2017 that would transfer \$4.0 million of MSBDFA fund balance attributable to the InvestMaryland program to the Maryland Venture Fund. This would leave a portion of funding within MSBDFA to provide follow-on funding for current investments or to fund potential projects that are close to approval. The MSBDFA fund balance, accounting for this transfer, is projected to be \$4.8 million at the end of fiscal 2018.

DLS recommends that the department comment on the slow deployment of InvestMaryland funds from MSBDFA. Further, DLS recommends that a significant portion of InvestMaryland funds be transferred from MSBDFA to the Maryland Venture Fund.

Recommended Actions

- | | <u>Amount
Reduction</u> | |
|--|------------------------------------|----|
| 1. Reduce funds under the Office of Biohealth. The department relinquished \$400,000 in general funds in fiscal 2017 after failing to transfer funds as directed under restrictive budget bill language. However, funds remained in the fiscal 2018 allowance. This action would lower general funds by the same amount, reflecting the lower fiscal 2017 appropriation. | \$ 400,000 | GF |
| 2. Reduce the increase under the Small, Minority, and Women-Owned Business Account and allow the special funds derived from video lottery terminal revenues to instead accrue to the Education Trust Fund. | 3,216,188 | SF |
| 3. Add the following language to the general fund appropriation: | | |

, provided that this appropriation shall be contingent on the enactment of SB 318 or HB 378.

Explanation: The legislation was introduced in order to increase the activity under the Cybersecurity Investment Incentive Tax Credit Program. As currently structured, the tax credit has been significantly underutilized.

- | | | |
|--|--|--|
| 4. Add the following language to the general fund appropriation: | | |
|--|--|--|

, provided that \$5,050,000 of this appropriation shall be contingent on the enactment of HB 161.

Explanation: This language would make a portion of the increased general fund allowance under the Maryland Economic Development Assistance Authority and Fund be contingent on a bill that restructures the program to expand allowable uses of, and broadens the limits on financial assistance from, the program.

- | | <u>Amount
Reduction</u> | |
|--|------------------------------------|----|
| 5. Reduce the increase in Maryland Economic Development Assistance Authority and Fund by half. This leaves \$18.8 million in general funds and | 5,000,000 | GF |

T00 – Department of Commerce

\$6.2 million in special funds for business incentives under the program.

Total Reductions	\$ 8,616,188
Total General Fund Reductions	\$ 5,400,000
Total Special Fund Reductions	\$ 3,216,188

Updates

1. Report on Customer Service Initiatives

The 2014 *Joint Chairmen's Report* included narrative requesting a report on customer service training by Commerce, along with the State Highway Administration, the Maryland Department of the Environment (MDE), and DLLR. The department submitted its report in January 2015, which summarized the State's customer service activity.

Language included in the fiscal 2017 budget bill restricted funds from the department's Office of the Secretary until the department submitted an update on customer service initiatives. This issue was originally discussed in 2014 by the Speaker's Business Climate Workgroup and was expanded on by the Augustine Commission. The Administration has since made customer service improvement a priority.

The department submitted its report in January 2017. The report addresses the work of the Governor's Commerce Subcabinet, which was designed by the Augustine Commission, in part, because of certain agencies' frequent interaction with the public. The subcabinet formed a workgroup to specifically discuss customer service. The workgroup reviewed current customer service practices, conducted surveys, and studied best practices.

The subcabinet created the Governor's Customer Service Initiative. Its goal is to instill a renewed focus on a strong service culture, improved training for employees, and new service performance metrics. Some examples of new practices include a Lean Management pilot program within MDE and a new phone call intake process under the Office of Minority Affairs.

2. Major Grants

The department awarded \$26.7 million in grants in fiscal 2016, as shown in **Exhibit 13**. The exhibit also shows another \$35.7 is being disbursed in the current fiscal year. A decline in grants is expected in fiscal 2018, largely due to the Film Production Activity program.

Exhibit 13
Department of Commerce
Summary of Major Grants
Fiscal 2016-2017

	<u>Actual</u> <u>2016</u>	<u>Appropriation</u> <u>2017</u>
Office of the Secretary and Business and Industry Sector Development		
International Trade and Development Grants		
Maryland Israel Development Corporation	\$275,000	\$275,000
Maryland Israel Development Corporation (Trade Mission Support)	100,000	0
World Trade Center Institute	225,000	225,000
Export Maryland – Small Business Foreign Trade Grants	483,628	499,973
Military/Federal and Base Realignment and Closure Assistance Grants		
Southern Maryland Navy Alliance	41,333	26,334
Army Alliance	43,834	26,333
Montgomery County – White Oak	15,333	15,333
Fort Meade Alliance	41,334	26,334
Fort Dietrick Alliance	42,083	21,583
Maryland Maritime Alliance	41,334	28,833
Military Alliance Council (Charles County)	41,500	24,000
Andrews Air Force Base, Business Roundtable of Prince George’s County	41,333	26,333
Base Realignment and Closure Support/Other	0	24,568
Office of Economic Adjustment Pass-through	47,011	0
Regional Council Grants		
Tri-County Council of Western Maryland	150,000	200,000
Tri-County Council of Southern Maryland	150,000	200,000
Mid-Shore Regional Council	150,000	200,000
Tri-County Council Lower Shore	150,000	200,000
Upper Shore Regional Council	150,000	200,000
Technology and Strategic Industries Support		
Technology Council of Maryland – Technology Marketing Partnership	600,000	0
Technology Council of Maryland	110,000	55,000
Chesapeake Regional Technology Council	72,500	30,000
Greater Baltimore Technology Council	105,000	55,000
Chesapeake Regional Technology Council	55,000	25,000
Economic Alliance of Greater Baltimore – BioPharma	100,000	0
Other Biotech Grant Support	131,990	13,978
Manufacturing Extension Partnership	250,000	250,000
Other/to Be Determined	45,000	85,000

T00 – Department of Commerce

	Actual 2016	Appropriation 2017
Cybersecurity Specific Grants		
Cybersecurity Industry Support/to Be Determined	60,000	135,000
Cybersecurity Association of Maryland	39,000	0
Chesapeake Regional Technology Council – Cyber Workforce Program	30,000	30,000
MEDCO – National Cyber Center of Excellence Support	50,000	50,000
Anne Arundel Economic Development – Cyber Technology Development Scholarship Program	30,000	30,000
Other Grants		
Partnership for Workforce Quality	0	0
Maryland Public-private Marketing Corporation	400,000	0
Baltimore Development Corporation	150,000	0
National Veterans Institute for Procurement	150,000	150,000
Maryland – Procurement Technical Assistance Program	140,000	140,000
Baltimore Symphony Orchestra	100,000	0
Economic Alliance of Greater Baltimore	75,000	62,000
Governor’s Workforce Investment Board	26,635	26,635
University of Maryland – Small Business Development Center	85,400	85,400
Not-For-Profit Development Fund Grants	67,200	110,000
Appalachian Regional Commission	15,472	13,844
Grants Total from Office of Secretary and Business and Industry Sector Development	\$5,076,920	\$3,566,481
Division of Tourism, Film, and the Arts		
Tourism		
Capital Region USA, Inc.	\$400,000	\$0
Maryland Tourism Council	40,000	40,000
B & O Railroad Museum	50,000	0
Town of Ocean City	50,000	0
Historic Ships in Baltimore	510,000	0
Baltimore Festival of the Arts	400,000	0
County Cooperative Grants (Various Recipients)	2,500,000	2,500,000
Various Other Tourism Grants	164,999	275,000
Subtotal	\$4,114,999	\$2,815,000
Maryland State Arts Council – Grants for Organization (GFO)		
Academy Art Museum	\$89,770	\$115,571
Adventure Theatre – Musical Theatre Center	105,000	140,000
AFI Silver Theatre and Cultural Center	115,500	150,000
American Dance Institute	85,000	85,000
American Visionary Art Museum	201,450	235,321
Annapolis Symphony Orchestra	75,556	90,953

T00 – Department of Commerce

	Actual <u>2016</u>	Appropriation <u>2017</u>
Artivate	61,999	81,584
Avalon Foundation, Inc.	112,830	129,857
Ballet Theatre of Maryland, Inc.	52,218	64,256
Baltimore Clayworks, Inc.	71,533	86,578
Baltimore Symphony Orchestra, Inc.	1,808,590	2,042,152
Baltimore’s Festival of The Arts, Inc.	64,643	85,000
BlackRock Center for the Arts	73,000	88,261
Center Stage Associates, Inc.	535,523	705,808
Chesapeake Shakespeare Company	0	55,000
Creative Alliance, Inc.	130,398	158,184
Dance Exchange, Inc.	0	52,720
Glen Echo Park Partnership for Arts and Culture, Inc.	100,000	145,825
Imagination Stage, Inc.	325,015	406,046
Jewish Museum of Maryland	50,350	0
Maryland Hall for the Creative Arts	135,000	189,055
Maryland-National Capital Park and Planning Commission, Arts and Cultural Heritage	250,672	300,000
Metropolitan Center for the Visual Arts	50,000	65,000
Montgomery College – Parilla Performing Arts Center	0	50,000
National Council for the Traditional Arts	0	52,455
National Philharmonic	159,887	163,707
Olney Theatre Center	260,000	360,000
Round House Theatre	219,911	259,955
Strathmore Hall Foundation, Inc.	540,111	778,636
The Baltimore Museum of Art	835,013	1,132,837
The Delaplaine Visual Arts Education Center	0	51,313
The Everyman Theatre, Inc.	205,703	240,000
The Lyric Foundation, Inc.	275,000	300,000
The Maryland-National Capital Park and Planning Commission, Area Operations	0	60,000
The Maryland Symphony Orchestra, Inc.	89,023	116,855
The Walters Art Museum	892,461	1,111,156
The Ward Museum of Wildfowl Art	66,160	79,196
The Writer’s Center	68,718	86,490
Washington County Museum of Fine Arts	76,726	89,461
Waterfowl Festival, Inc.	55,000	77,666
WBJC-FM	50,000	60,000
Weinberg Center for the Arts/City of Frederick	100,796	129,923
World Arts Focus dba Joe’s Movement Emporium	63,007	78,196
Young Audiences of Maryland, Inc.	138,000	166,068

T00 – Department of Commerce

	Actual 2016	Appropriation 2017
Various Other GFO grants	2,888,918	895,960
<i>Subtotal</i>	<i>\$11,813,481</i>	<i>\$12,188,766</i>
Community Arts Development		
Allegany Arts Council, Incorporated	\$99,846	\$119,111
Arts and Humanities Council of Montgomery County	141,158	168,682
Arts Council of Anne Arundel County, Inc.	120,866	144,300
Arts Council of Calvert County	100,608	120,036
Baltimore County Commission on Arts and Sciences	132,377	157,975
Baltimore Office of Promotion and the Arts	123,569	147,253
Caroline County Council of Arts, Inc.	98,102	117,064
Carroll County Arts Council	103,939	123,983
Cecil County Arts Council, Inc.	101,116	120,640
Charles County Arts Alliance, Inc.	103,375	123,393
Dorchester Center for the Arts, Inc.	98,104	117,054
Frederick Arts Council, Inc.	107,212	127,963
Garrett County Arts Council, Inc.	97,979	116,904
Harford County Public Library	107,489	128,218
Howard County Arts Council	110,043	131,452
Kent County Arts Council	97,553	116,409
Prince George’s Arts and Humanities Council	135,721	161,992
Queen Anne’s County Arts Council, Inc.	98,804	117,900
Salisbury Wicomico Arts Council	101,079	120,640
Somerset County Arts Council	97,814	116,715
St. Mary’s County Arts Council	101,461	121,103
Talbot County Arts Council, Inc.	98,322	117,317
Washington County Arts Council, Inc.	103,152	123,059
Worcester County Arts Council	98,928	118,035
Various Community Arts Development Grants	0	0
<i>Subtotal</i>	<i>\$2,578,617</i>	<i>\$3,077,198</i>
Artists in Education		
InterAct Story Theatre Education Association	\$132,887	\$0
Young Audiences of Maryland, Inc.	321,903	0
Various Artist In Education	247,694	1,775,000
<i>Subtotal</i>	<i>\$702,484</i>	<i>\$1,775,000</i>
Individual Artist Awards		
Various Individual Artist Awards	\$217,000	\$250,000

T00 – Department of Commerce

	Actual 2016	Appropriation 2017
Maryland Traditions		
National Council for the Traditional Arts	\$132,887	\$0
Various Maryland Traditions	321,903	0
<i>Subtotal</i>	\$247,694	\$1,775,000
Preservation of Cultural Arts		
Great Blacks in Wax Museum	\$0	\$200,000
Sotterly Plantation	50,000	0
Maryland Historical Society	125,000	0
Maryland Humanities Council	175,000	0
Maryland Science Center	467,000	0
Center Stage	200,000	0
Arts Every Day	68,080	0
Young Audiences of Maryland	50,000	0
Various Preservation Cultural Grants	75,000	0
Maryland State Arts Council – Grants Appropriated in Preservation Fund	789,920	0
<i>Subtotal</i>	\$2,000,000	\$200,000
Total Maryland State Arts Council and Preservation Grants	\$17,534,272	\$17,796,739
Film Tax Rebate	\$0	\$11,500,000
Total Commerce Grants	\$26,726,191	\$35,678,220

MEDCO: Maryland Economic Development Corporation

Source: Department of Commerce

T00 – Department of Commerce

**Appendix 1
Current and Prior Year Budgets
Department of Commerce
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2016					
Legislative Appropriation	\$73,015	\$65,928	\$1,519	\$266	\$140,728
Deficiency Appropriation	20,000	0	0	0	20,000
Budget Amendments	-869	-15,645	426	0	-16,088
Reversions and Cancellations	-143	-2,308	-82	-159	-2,693
Actual Expenditures	\$92,002	\$47,975	\$1,863	\$107	\$141,947
Fiscal 2017					
Legislative Appropriation	\$92,606	\$51,058	\$9,487	\$206	\$153,356
Cost Containment	-2,750	0	0	0	-2,750
Budget Amendments	-393	-2,444	735	0	-2,103
Working Appropriation	\$89,463	\$48,614	\$10,221	\$206	\$148,503

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The original fiscal 2016 appropriation was increased due to a deficiency appropriation of \$20.0 million in general funds to provide a Sunny Day retention incentive to the Northrop Grumman Corporation. Absent this deficiency, final spending in fiscal 2016 was considerably less than the original appropriation. This was mainly due to the transfer of programs from the Department of Commerce (Commerce) to the Maryland Technology Development Corporation (TEDCO) pursuant to Chapter 141 of 2015 that reorganized the State's economic development efforts. Specifically, general funds declined by over \$1.1 million due to the transfer of early biotechnology company grants. The decline is mitigated, in part, by the restoration of a general 2% salary reduction.

Similarly, special funds declined by approximately \$16.4 million due to the transferred funds of the Maryland Enterprise Fund to TEDCO. However, this decline was also partially mitigated by the restoration of the 2% salary reduction. Further, an additional budget amendment increased special funds (\$300,000) to the Maryland Economic Adjustment program. This program was originally established to provide loans to new or existing companies in communities suffering from dislocation due to defense adjustments. The program has expanded and is often 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. Additionally, special funds increased by \$50,000 due to an increase in available funds for the Maryland Not-for-Profit Development Fund that provides technical assistance to newly formed nonprofits. Special funds also increased by \$280,000 under the Tourism Development Board to support activities related to the inaugural Maryland Fleet Week and Air Show in Baltimore.

The department canceled over \$2.3 million in special funds in fiscal 2016 across several programs. The primary causes are related to departmental vacancies, unfinished information technology projects, and less demand in a few of the department's business incentive programs.

Federal funds increased primarily due to a budget amendment for the Office of International Investment and Trade. The funds were made available through a grant from the U.S. Small Business Administration under its State Trade and Export Promotion Grant program. The federal program is designed to provide matching funds for states to assist small business and their export activities. Commerce is using the funds to supplement its existing ExportMD program. This program provides \$5,000 grants to Maryland companies to reimburse expenses associated with international marketing efforts. Finally, federal funds increase slightly due to the restoration of the general 2% salary reduction.

Fiscal 2017

The fiscal 2017 working appropriation is considerably less than the original appropriation due largely to the cost containment actions taken at the November 2016 Board of Public Works meeting. Specifically, general funds were reduced by \$2.75 million. The department's entire appropriation for the CyberMaryland Investment Tax Credit Program was deleted (\$2 million). This was possible due to low demand and the availability of fund balance under the program. Additionally, \$500,000 was reduced under the Maryland E-Innovation Initiative in anticipation of available special funds. The

T00 – Department of Commerce

funds are used for grants for higher education endowments to fund research in fields of study that offer promising economic impact. General funds were also reduced in anticipation of special fund availability under the Military Personnel and Service-Disabled Veteran Loan program (\$100,000) as loans are repaid to the program. Finally, the department relinquished an additional \$150,000 in general funds under the Maryland Tourism Development Board.

General funds were also reduced by a budget amendment that consolidated information technology funding and positions into the Department of Information Technology. These declines were mitigated slightly by an increase in funds for salary increments.

Special funds declined by \$2.5 million due to the transfer of funds under the Small, Minority, and Women-Owned Business Account to the Department of Housing and Community Development for their efforts to address business needs in the aftermath of the recent flooding. Again, this decline was mitigated slightly due to an increase in funds for salary increments.

Federal funds were increased in the fiscal 2017 working appropriation due to a budget amendment that provided \$727,579 to the Office of International Trade and Investment. The federal funds are made available to the department through the U.S. Small Business Administration's State Trade and Export Promotion Grant Program. The department is using the funds to supplement its ExportMD program. The funds also enables more Maryland companies to participate in foreign trade shows and Governor-led trade missions. Additionally, federal funds increased slightly due to an increase in funds for salary increments.

Appendix 2
Object/Fund Difference Report
Department of Commerce

<u>Object/Fund</u>	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u> <u>Appropriation</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17 - FY 18</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	202.00	193.00	193.00	0.00	0%
02 Contractual	18.10	21.38	25.00	3.62	16.9%
Total Positions	220.10	214.38	218.00	3.62	1.7%
Objects					
01 Salaries and Wages	\$ 21,837,858	\$ 22,461,769	\$ 21,802,109	-\$ 659,660	-2.9%
02 Technical and Spec. Fees	855,832	962,007	1,250,575	288,568	30.0%
03 Communication	428,163	536,061	455,274	-80,787	-15.1%
04 Travel	493,969	721,394	663,696	-57,698	-8.0%
06 Fuel and Utilities	19,097	25,298	20,988	-4,310	-17.0%
07 Motor Vehicles	295,228	289,644	327,166	37,522	13.0%
08 Contractual Services	10,035,076	13,500,044	12,324,224	-1,175,820	-8.7%
09 Supplies and Materials	211,126	207,982	275,512	67,530	32.5%
10 Equipment – Replacement	51,718	14,350	21,700	7,350	51.2%
11 Equipment – Additional	60,509	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	73,750,971	68,624,159	64,263,740	-4,360,419	-6.4%
13 Fixed Charges	2,426,981	2,405,743	2,428,611	22,868	1.0%
14 Land and Structures	31,480,284	38,755,000	49,505,000	10,750,000	27.7%
Total Objects	\$ 141,946,812	\$ 148,503,451	\$ 153,338,595	\$ 4,835,144	3.3%
Funds					
01 General Fund	\$ 92,002,343	\$ 89,462,926	\$ 97,146,803	\$ 7,683,877	8.6%
03 Special Fund	47,974,546	48,613,600	54,528,762	5,915,162	12.2%
05 Federal Fund	1,862,837	10,221,344	1,663,030	-8,558,314	-83.7%
09 Reimbursable Fund	107,086	205,581	0	-205,581	-100.0%
Total Funds	\$ 141,946,812	\$ 148,503,451	\$ 153,338,595	\$ 4,835,144	3.3%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 3
Fiscal Summary
Department of Commerce**

<u>Program/Unit</u>	<u>FY 16 Actual</u>	<u>FY 17 Wrk Approp</u>	<u>FY 18 Allowance</u>	<u>Change</u>	<u>FY 17 - FY 18 % Change</u>
0A Department of Business and Economic Development	\$ 17,176,055	\$ 17,667,997	\$ 16,866,479	-\$ 801,518	-4.5%
0F Division of Financial Assistance Programs	71,779,052	85,949,912	97,560,409	11,610,497	13.5%
0G Division of Tourism and Promotion	32,991,705	44,885,542	38,911,707	-5,973,835	-13.3%
1A State Reserve Fund	20,000,000	0	0	0	0%
Total Expenditures	\$ 141,946,812	\$ 148,503,451	\$ 153,338,595	\$ 4,835,144	3.3%
General Fund	\$ 92,002,343	\$ 89,462,926	\$ 97,146,803	\$ 7,683,877	8.6%
Special Fund	47,974,546	48,613,600	54,528,762	5,915,162	12.2%
Federal Fund	1,862,837	10,221,344	1,663,030	-8,558,314	-83.7%
Total Appropriations	\$ 141,839,726	\$ 148,297,870	\$ 153,338,595	\$ 5,040,725	3.4%
Reimbursable Fund	\$ 107,086	\$ 205,581	\$ 0	-\$ 205,581	-100.0%
Total Funds	\$ 141,946,812	\$ 148,503,451	\$ 153,338,595	\$ 4,835,144	3.3%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.