HB 1321

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Revised

House Bill 1321 (Chairman, Economic Matters Committee)
(Departmental - Business and Economic Development)
Economic Matters Referred to Budget and Taxation

Maryland Business Financing Fund

This amended departmental bill repeals the Maryland Industrial Land Act (MILA) and the Maryland Industrial and Commercial Redevelopment Fund (MICRF) and creates the Maryland Business Financing Fund in the Department of Business and Economic Development (DBED). The fund may be used to provide financing for an industrial, commercial, or nonprofit development project as applied for by a political subdivision of the State or other entity that meets specified criteria. The fund may also be used to pay any administrative expenses, including legal, actuarial, marketing, and other services.

Financial assistance through the fund may pay up to 100% of the total project costs, but may not exceed $4 million for any one project ($4.5 million if the project is located in an enterprise zone). Loans and grants through the fund must be provided through an agreement specifying terms and conditions. If the borrower is not a political subdivision, the financial assistance may be conditioned on the political subdivision's agreement to provide certain guarantees, financing arrangements, or other acceptable contributions. A political subdivision may delegate the planning and implementation of a project to the subdivision's economic development agency or to a municipal corporation.

The bill is effective July 1, 1996.

Fiscal Summary

State Effect: Potential indeterminate effect on special fund revenues with a decrease in general fund revenues of approximately $500,000; expenditures would not be affected.

Local Effect: Potential indeterminate decrease in expenditures and revenues.

Small Business Effect: A small business impact statement was not provided by the Department of Business and Economic Development in time for inclusion in this fiscal note. A revised fiscal note will be issued when the department's assessment becomes available.

Fiscal Analysis

Background: The total funding available for MICRF as of July 1, 1996 is expected to be $10.9 million, with $15.6 million available for MILA. ($25 million of this $26.5 million represents the fiscal 1997 budget allowance.) The department has not provided consistent information regarding loan and grant activities through these funds. However, the full resources provided are typically expended; the demand for MICRF has exceeded the resources for several years. In fiscal 1995, $5 million was transferred from MILA to MICRF; and for fiscal 1996, a $4 million deficiency appropriation has been requested for MICRF.

Both MICRF and MILA have a full faith and credit requirement for the local jurisdiction involved; MICRF also has a 10% matching fund requirement for the local jurisdiction. Both funds have maximum loan and grant amounts of under $3 million per project.

MILA projects must be approved by the Secretary, while MICRF projects must go through the Board of Public Works. In addition, MICRF projects must go through the Office of Clearinghouse review.

State Effect: It is assumed that the Maryland Business Financing Fund will consist of the resources currently allocated to MICRF and MILA, though the bill does not directly transfer these funds. DBED reports that a budget amendment would be put in to this effect; any remaining MICRF or MILA projects would come out of the new combined fund. Thus, the new fund will start out with $26.5 million; this will not affect the overall expenditures of the department. This restructuring should not change personnel needs; it is assumed that the personnel assigned to handle the new fund are those that currently work with both MICRF and MILA funding.

Under the terms of this bill, the interest rate would be negotiable. According to DBED, it will generally be higher than currently allowed under MILA (fixed at the State Bond rate plus .13%) or MICRF (up to the MILA rate). To the extent that interest rates are used that are higher than the current rate, revenues accruing through interest payments would increase. In addition, the terms of the loan set up for this fund are generally shorter than those allowed under MICRF and MILA. This also should increase annual repayment amounts by condensing the repayment schedule. Under Section 3 of the bill, the Secretary may modify the terms of MICRF and MILA financing with the approval of the relevant political subdivision, including loan interest rates and loan terms. Therefore these revenue effects could be felt for MICRF and MILA before these programs are repealed on July 1, 1997.

The bill also provides that the investment earnings from the fund return to the fund; currently, MICRF and MILA investment earnings accrue to the general fund. This provision would therefore increase special funds commensurate with a general fund decrease. For instance, if the yearly average of funds available per month is approximately $10 million, interest revenues given a 5% interest rate would be approximately $500,000. However, the amount of revenues would fluctuate depending upon the monthly average of funds available and the interest rates provided.

Removing the full faith and credit requirement from local governments means that a company could apply directly for financing assistance from DBED. Should the company default, the State would then bear the burden of that loss. Revenues could decrease by an indeterminate amount due to defaults and late payments; this would be offset to some extent due to any collateral attached to the loans.

The projects approved through the fund go directly through the Secretary rather than through the Board of Public Works or any other agency. In addition, mandatory requirements on local jurisdictions are removed. These factors should speed up the time in which it takes to complete projects. As discussed below, to the extent that projects are undertaken under this bill that would not have been funded through MICRF or MILA, any increases in tax revenues due to economic development cannot be predicted at this time.

Local Effect: Under the Maryland Business Financing Fund, local jurisdictions would not be bound to the same full faith and credit and contributory requirements that existed for MICRF and MILA. In addition, the mandatory financial contribution required under MICRF is removed. While DBED may still require some involvement by the local jurisdictions, this would not be mandated in every case; businesses and other entities could apply for funding directly through DBED.

To the extent that full faith and credit and local contributory requirements decrease under this legislation, local expenditures would decrease. In cases where DBED loans funds directly to a company or other entity, local revenues would decrease (as would local expenditures). In certain cases, the removal of mandatory local requirements could result in certain projects being undertaken that would not otherwise have occurred; any increases in tax revenues due to economic development cannot be predicted at this time.

Information Source(s): Department of Business and Economic Development, Department of Fiscal Services

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Analysis by: Kim E. Wells
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710