

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 638 (Senator Pinsky, et al.)
Budget and Taxation

Economic Development Strategies and Accountability

This bill requires the Secretary of the Department of Business and Economic Development (DBED) to pursue an interstate compact that limits or restricts the interstate competition for out-of-state businesses. It prohibits the Legislative Policy Committee (LPC) from approving a Sunny Day Fund disbursement unless the project:

- hires at least 100 new employees within two years;
- pays employees at least double the federal minimum wage;
- provides and contributes to employee health care benefits;
- meets any other negotiated economic development outcomes;
- is consistent with the economic growth, resource protection, and planning policy of the State; and
- meets specified provisions regarding collective bargaining if the business is purchasing an existing facility or relocating.

The bill specifies penalty provisions if a recipient fails to meet stated requirements. The Governor must include in the economic analysis specified workforce characteristics including the effect of any workers displaced at existing non-recipient businesses. The Governor must also provide specified information to the LPC on the applicant's past history.

The Secretary must submit a written report to the General Assembly on December 31, 1997 regarding the progress made in securing an interstate compact.

Fiscal Summary

State Effect: Indeterminate increase in administrative and/or consulting expenditures; potential indeterminate decrease in expenditures on grants and loans. Potential increase in revenues.

Local Effect: None.

Fiscal Analysis

State Effect: To the extent that the bill results in an interstate compact restricting competition for out-of-state companies, expenditures on incentive programs could decrease both for attracting out-of-state companies to relocate and for retaining Maryland companies. These expenditures would also decrease by an indeterminate amount due to the restrictions placed on Sunny Day Fund projects under this legislation.

DBED reports that additional analysis will be required on each project to provide required information regarding employee demographics and information on displaced employees at other companies. This means that DBED would have to track employment levels at businesses in competition with the Sunny Day Fund recipients. DBED anticipates that it would hire a consultant to develop a model to take all the additional factors into account; the cost of this contract would depend upon the bids submitted but could be significant. In addition, once the model is developed, the relevant information would need to be tracked and entered. This could either be done by the consultant or additional staff.

DBED indicates that it would hire three additional staff if the work is not done by a consultant, with one-quarter of their time (and salaries) dedicated to this function. The rest of their time would be dedicated to existing workload needs. Overall expenditures for these three positions would total \$112,900 in fiscal 1997. The Department of Fiscal Services (DFS) advises that the requirements of this bill do not require DBED to hire three additional full-time personnel. Contractual expenses for the same personnel would total \$23,500 in fiscal 1997, reflecting the bill's October 1, 1996 start-up date. DFS further advises that contracting with a consultant to handle this employment analysis could be more cost effective. In any case, a more precise determination needs to be made by DBED on the amount of companies potentially affected. If this number is relatively low, DBED could handle the tracking requirements of this bill with existing resources.

While the bill defines penalty provisions, it does not actually require that DBED insert these provisions into Sunny Day Fund contracts. However, to the extent that the requirements of this bill are enforced with penalty provisions as defined, revenues could increase if companies do not meet stated requirements and must pay back grants or loans.

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

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