SB 190

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 190 (Senator Amoss, *et al.*)
Budget and Taxation | Referred to Economic Matters

Economic Development - Loans Guaranteed by Political Subdivisions

This enrolled bill reduces the general obligation of a local subdivision to the State from 100% to 40% of any loan that is given through the Maryland Industrial Land Act (MILA) or the Maryland Industrial and Commercial Redevelopment Fund (MICRF). The Secretary of Business and Economic Development may increase this percentage if the requested financing is not sufficiently supported by the borrower's credit or the expected revenue of the project. The bill allows funds to be loaned directly to a private entity; the political subdivision in which the project is located will still incur the general obligation. A political subdivision may provide a 40% cash match instead of a 40% guarantee on approved MICRF loans under $100,000. The Maryland Economic Development Corporation (MEDCO) may act as the official borrower only if certain conditions are met.

The Department of Business and Economic Development (DBED) may not transfer funds from the MILA or MICRF programs to any other DBED financing programs, though the department may continue to transfer funds between MICRF and MILA. DBED may modify the terms of any MILA loan and may extend the term of a loan or grant made through MICRF with the approval of the local subdivision and the Board of Public Works. Investment earnings from money in the MICRF and MILA funds must remain in the fund rather than revert to the general fund. A local jurisdiction receiving MILA funds for financial planning or engineering study costs, or for acquiring options to purchase sites, must contribute a 10% match rather than an equal match.

Fiscal Summary

State Effect: Indeterminate effect on State revenues and expenditures.

Local Effect: Indeterminate effect on local revenues and expenditures.

Small Business Effect: Potential minimal impact on small businesses as discussed below.

Fiscal Analysis

Background: Several local jurisdictions currently do not participate in the MICRF and MILA programs due to the general obligation of the local government for full faith and credit to the State that a loan will be repaid. The Maryland Economic Development Corporation (MEDCO) is used by some of these jurisdictions to avoid the full faith and credit issue (MEDCO acts as the technical local subdivision); 10 of the 21 MICRF projects approved in fiscal 1996 went through MEDCO. In fiscal 1996, MICRF projects totaling $20 million were approved; $16.5 million were loans and $3.5 million were grants. MILA projects for the same period totaled $10.9 million in loans.

The fiscal 1998 budget allowance for MICRF is $8.5 million ($3.5 million in general funds and $5 million in special funds); the fiscal 1998 budget allowance for MILA is $9 million ($4 million in general funds and $5 million in special funds).

State Effect: Under this bill, in most cases a local government would only be responsible to the State for the first 40% of a MICRF or MILA loan. If the company receiving the loan should default, then State revenues would decrease, as the local government would only have to make partial payment. However, the bill does give DBED more flexibility to renegotiate the terms of these loans; this could potentially decrease the chance for a default.

In addition, to the extent that local governments are more inclined to directly participate in the program given the reduced full faith and credit, MEDCO involvement becomes less likely. This is further limited under the bill, which restricts MEDCO from acting as the borrower to instances where the local jurisdiction is financially restrained from pledging full faith and credit, the project is a significant economic development opportunity, and the project's expected revenue supports the requested financing. Currently, loans issued through MEDCO are not secured as are those going through local jurisdictions; in some cases, payments to the State for loans that default could actually increase.

The bill decreases the local match required for MILA funds used for financial planning or engineering study costs from 50% to 10%. The bill also decreases the local match required for MILA funds used to acquire options to purchase industrial land sites or industrial park sites from 50% to 10%. However, State loans for these purposes are capped at $25,000 and $50,000 respectively. Therefore, it is not clear that State funding for these purposes would increase under the bill.

The bill also provides that the investment earnings from the MICRF and MILA funds must remain in the funds rather than revert to the general fund. This provision would increase special fund revenues commensurate with a general fund decrease. DBED did not provide the Department of Fiscal Services with any information on the current investment earnings from these funds. However, by way of illustration, if the yearly average of funds available per month is approximately $10 million, interest revenues under 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.

Under the terms of the bill, while DBED could transfer funds between the two programs, no funds may be transferred out of MILA or MICRF to any other program. During fiscal 1995, DBED made three fund transfers from MILA to other programs. One of these, for $5 million, was to MICRF; this transfer would still be allowed. However, $750,000 was transferred to the Sunny Day Fund and $1.3 million to the Maryland Enterprise Investment Fund. While restricting such transfers could affect the type of projects DBED funds, it is not expected to affect the overall expenditures of the department.

Local Effect: To the extent that full faith and credit requirements decrease under this legislation, potential local expenditures to the State would decrease. In certain cases, this change to 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.

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Small Business Effect: A few small businesses do benefit from the MICRF and MILA programs. If the change in local requirements results in projects being undertaken that would not otherwise have occurred, then small businesses could benefit from the loans or grants provided.

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

Fiscal Note History:	First Reader - January 28, 1997
mld	Revised - Senate Third Reader - March 24, 1997
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Analysis by: Kim E. Wells-McDonnell		Direct Inquiries to:
Reviewed by: John Rixey		John Rixey, Coordinating Analyst
		(410) 841-3710
		(301) 858-3710