

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Revised

House Bill 7 (Delegate Tavior. *et al.*)

Economic Matters

**Economic Development - Maryland Science, Engineering, and Technology
Development Corporation**

This bill establishes the Maryland Science, Engineering, and Technology Development Corporation as a public instrumentality of the State to: (1) assist in transferring to the private sector and commercializing the results and products of scientific research and development conducted by colleges and universities in the State; (2) assist in the commercialization of technology developed in the private sector; and (3) foster the commercialization of research and development to create and sustain businesses throughout all regions of the State.

This bill takes effect July 1, 1998.

Fiscal Summary

State Effect: Tax revenues could increase and expenditures on certain assistance programs could decrease to the extent the bill spurs employment and economic development.

Local Effect: Tax revenues could increase to the extent that the bill spurs employment and economic development. Expenditures would not be affected.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: The bill establishes an 11-member board to manage the corporation. Members are appointed by the Governor with the advice and consent of the Senate to serve staggered four-year terms. Board members serve without compensation, but are eligible for expense reimbursement under the standard State travel regulations. The corporation must employ an executive director.

Among other powers granted, the corporation may: (1) accept loans, grants, or assistance from federal, State, or local governments, colleges or universities, or private sources; (2) acquire, construct, develop, manage, market, manufacture, license, sublicense, reconstruct, rehabilitate, improve, maintain, equip, lease, repair, and operate any project in the State; (3) acquire, purchase, hold, lease, and use any: franchise, patent, or license; or any real, personal, mixed, or tangible or intangible property; (4) sell, lease, transfer, license, sublicense, assign, and dispose of any property; (5) acquire any lands, structures, property, rights-of-way, franchises, easements for the construction, improvement, rehabilitation, or operation of a project; (6) set rates, rentals, fees, and charges for services and resources; (7) do all things necessary to carry out the powers granted; and (8) exercise any power not in conflict with the Constitution and the laws of the State.

Colleges and universities may: (1) contract with the corporation or its subsidiaries, if any; (2) assign to the corporation or its subsidiaries, if any, intellectual property and other resources to assist in its development and activities; and (3) assign faculty and staff to the corporation. Any faculty and staff of a public institution of higher education in the State that are assigned to the corporation will retain their employment status.

The State Treasurer is authorized to advance up to \$450,000 for the initial expenses of the corporation, with the sum to be repaid out of the first moneys available to the corporation. The repayment must be made at a rate of interest consistent with similar State investments. The corporation is subject to audit at the State's discretion and annually by an independent auditor approved by the Office of Legislative Audits. The corporation must report operating and financial statements within the first 90 days of each fiscal year.

The corporation shall be exempt from: (1) State and local taxes; (2) oversight by the Board of Public Works and the laws governing procurement under the General Procurement Law; (3) laws governing the State personnel management system; (4) laws regarding attendance at open sessions; and (5) laws related to Executive Departments. The corporation, its board, and employees are subject to the public ethics law and the public information act. The debts, claims, obligations, and liabilities of the corporation or its subsidiaries, if any, may not be considered a debt of the State or a pledge of its credit.

Background: Organizationally, the entity that would be created by this bill is similar to the Maryland Economic Development Corporation (MEDCO), which was established as a non-budgeted entity in 1984 to give the State the ability to directly own or develop property for economic development purposes. MEDCO's mission is to develop vacant or under-utilized sites and facilities, to expand, modernize, and retain existing businesses, and to attract new businesses. MEDCO purchases or develops property that is then leased to others under favorable terms. MEDCO also makes direct loans to companies requiring financing to maintain or develop facilities throughout the State.

MEDCO's 1996 expenses were \$11.6 million, with administrative expenses of \$324,000. There were three full-time and one part-time staff members. Through the close of fiscal 1996, MEDCO had issued over \$100 million in bonds for specific projects, plus \$75 million to capitalize a municipal loan pool. In addition to direct issuance of taxable or tax-exempt bonds, MEDCO has participated in the Department of Business and Economic Development's Maryland Industrial Land Act and Maryland Industrial and Commercial Redevelopment Fund projects. As of June 30, 1996, MEDCO was the holder of 28 of these grants and loans, in most cases acting as borrower in lieu of a local government. Recent projects have resulted in significant private investment and additional jobs in the State.

Unlike MEDCO, the corporation that would be established by this bill would not have the express authority to issue bonds.

State Effect:

Exemption of the Corporation from Income Taxes

If income earned by the corporation is income that would not have been earned in the State prior to the existence of the corporation, there would be no revenue loss. If the income would have otherwise been earned by a taxable entity in the State, the revenue lost for each \$100 of taxable income would be \$5.25 in general funds and \$1.75 in special funds. If the taxable entity which would have earned the income was not a corporation, the general fund would bear the full amount of the revenue loss. The actual amount of income that would be earned is unknown and the extent to which the income would have been otherwise taxable is unknown.

Economic Development

The benefit to the State in terms of increased tax revenues, both direct and indirect, resulting from the employment and economic development fostered by the corporation cannot be reliably estimated at this time, but is potentially significant based on MEDCO's performance.

State Treasurer's Advance

The State Treasurer's office advises that it currently has no funds available for this type of advance and a general fund appropriation would be required to enable the Treasurer to advance the money for the initial costs. The money could then be reimbursed to the general fund as it is repaid. For informational purposes only, the \$450,000 advance MEDCO received to start up its operations in 1985 was repaid to the State by 1990. It is noted that in addition to this advance, MEDCO received title to a property in Hagerstown that had been donated to the State. MEDCO then borrowed an additional \$9 million through a joint venture with a private company in order to operate this facility.

Legislative Audits

The Office of Legislative Audits estimates the cost of performing each audit of the corporation to be less than \$15,000 and could be absorbed with existing resources.

State Colleges and Universities

The benefit to State colleges and universities from an increased ability to commercialize technological developments cannot be reliably estimated at this time, but is potentially significant.

Local Revenues:

Exemption of the Corporation from Income Taxes

If income earned by the corporation is income that would not have been earned in the State prior to the existence of the corporation, there would be no revenue loss. If the income would have otherwise been earned by a taxable entity, other than a corporation, in the State, the exemption from the local income tax would result in a revenue loss. The actual amount of income that would be earned is unknown and the extent to which the income would have been otherwise taxable is unknown.

Economic Development

The benefit in terms of increased tax revenues, both direct and indirect, resulting from the employment and economic development fostered by the corporation cannot be reliably estimated at this time, but is potentially significant based on MEDCO's performance.

Small Business Effect: To the extent that the corporation is successful in fostering economic growth, facilitating research partnerships, developing international markets for Maryland technology, and stimulating the creation of new technologies, small technology

businesses could benefit. While it is unknown at this time how the corporation would utilize the many tools at its disposal to achieve its purposes, small businesses could reap significant benefits, such as access to capital that they would otherwise lack.

Information Source(s): Department of Business and Economic Development, Comptroller of the Treasury (Bureau of Revenue Estimates), State Treasurer, University System of Maryland, Maryland Higher Education Commission, Maryland Economic Development Corporation, Department of Legislative Services (Office of Legislative Audits)

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