HB 188

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

House Bill 188 (The Speaker)
(Administration)
Economic Matters

Maryland Economic Development Assistance Authority and Fund

This Administration bill creates the Maryland Economic Development Assistance Fund within the Department of Business and Economic Development (DBED) to expand employment opportunities in the State by providing loans to businesses in eligible industry sectors. The Maryland Economic Development Assistance Authority will make decisions regarding loans from the fund.

Fiscal Summary

State Effect: General fund expenditures would increase by $5,045,000 in FY 2000 only, including $5 million in PAYGO funds and $45,000 in operating expenses. General fund expenditures would increase by $10,134,200 in FY 2001, reflecting inflation and a capital appropriation of $10 million. General fund revenues could increase by an indeterminate amount from increased tax revenues. The FY 2000 budget includes $5,045,000 in general fund PAYGO and general fund operating expenses contingent upon enactment of this bill.

Local Effect: Revenues for local jurisdictions could increase by an indeterminate amount.

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

Fiscal Analysis

Bill Summary: The fund will provide long-term fixed rate loans to businesses in eligible industry sectors. The nine-member Maryland Economic Development Assistance Authority established by the bill must: (1) establish a list of industry sectors that will be eligible for loans; (2) evaluate requests for loans that have been first evaluated by DBED staff; (3) determine whether to approve loan requests; and (4) set the terms and conditions of loans.

The fund may consist of: (1) appropriations; (2) federal or private contributions; (3) investment income; (4) repayments of principal and interest from loans; (5) proceeds from the sale, disposition, lease, or rental of collateral related to loans; (6) application or other fees; and (7) any other moneys made available to the fund. DBED may use the money in the fund to provide loans to eligible applicants and to pay expenses for administrative, actuarial, legal, and technical services for the program.

Applicants eligible for loans under the program must be either the Maryland Economic Development Corporation (MEDCO) or an individual or business entity that: (1) is primarily engaged in a business in an eligible industry sector; (2) intends to use the funds for a project that has a strong potential for expanding or retaining employment opportunities in the State; and (3) submits an application containing all information deemed necessary by DBED or the authority. The bill further establishes that projects to be funded are "growth-related projects" as defined under Smart Growth provisions.

Recipients of the loans may only use the funds for: (1) acquisition or construction of a building or real estate; (2) acquisition, construction, or installation of machinery, equipment, furnishings, fixtures, leasehold improvements, or site improvements; or (3) working capital. Loans from the fund may not be less than $250,000 if the fund balance is less than $10 million. Loans from the fund may not exceed the lesser of $10 million or 20% of the fund balance. While the authority has the ability to set terms and conditions of loans, the bill sets maximum terms and specifies that the interest rate must be below the market rate of interest. Unless the borrower is MEDCO, the amount of the loan may not exceed 70% of the project being financed.

DBED must convene and staff a study panel during the 1999 interim which will renew the consolidation of DBED's current financing funds and financing funding models. DBED must report on the study panel's findings by December 1, 1999. DBED must report to the Governor and to the General Assembly before January 1 of each year on the number, amount, use and economic benefits of loans awarded by the fund. The bill is effective July 1, 1999 and sunsets June 30, 2001.

Background: Chapter 759 of 1997 (SB 389) established priority funding areas in the State ("Smart Growth" areas). With certain exceptions, the Act prohibits State funding for growth-related projects outside priority funding areas designated by each county.

There are three existing funds, administered through DBED, that are similar in nature and serve a similar pool of businesses as the proposed fund: the Maryland Industrial and Commercial Redevelopment Fund (MICRF), the Maryland Industrial Land Act (MILA), and the Economic Development Opportunities Fund (the Sunny Day Fund). In fiscal 1998 DBED approved 42 loans and grants totaling over $41 million under these programs.

State Revenues: To the extent that this legislation spurs employment and economic development, tax revenues could increase.

State Expenditures: General fund expenditures could increase by an estimated $45,000 in fiscal 2000 to partially offset the costs of hiring two contractual administrators to manage the program. The remaining $87,900 will be paid by special funds reallocated from other DBED programs. It is assumed that this method of funding will continue in the short term. DBED advises that a portion of the duties related to the administration of this program can be performed by existing personnel. The expenditure estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$64,800
Operating Expenses	68,100
Total FY 2000 Operating Expenditures	**$132,900**

The fiscal 2000 budget includes $5 million in PAYGO general funds to capitalize the fund. DBED's capital improvement program projects PAYGO appropriations of $10 million in fiscal years 2001 through 2003. The PAYGO appropriation in fiscal 2004 would be $15 million. The budget also includes general and special fund operating expenditures of $142,800 for the administration of this fund. The special funds are being reallocated from other DBED programs. DBED could staff the study panel with existing resources.

Local Revenues: To the extent that this legislation spurs employment and economic development, piggyback tax and property tax revenues could increase.

Small Business Effect: To the extent that recipients of the program's loans are small businesses, such entities would benefit by using the funds to enhance or expand their business operations. Other small businesses could also benefit indirectly if the bill increases development and economic activity.

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

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