

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 783 (Senator Middleton. *et al.*)

Budget and Taxation and Finance

**Business and Economic Development - Financing Programs Consolidation
Act of 2000**

This bill consolidates and makes various changes to several financing programs within the Department of Business and Economic Development (DBED).

Fiscal Summary

State Effect: The proposed FY 2001 budget includes \$29.2 million for the funds consolidated into the Maryland Economic Development Assistance Fund (MEDAF). Special fund revenues could increase from investment earnings.

Local Effect: Expenditures could increase for the development of economic development plans or strategies. Such costs could be partially offset by grants from DBED.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Changes to the MEDAF

The bill consolidates six programs into the MEDAF to create a large direct loan, grant, and equity investment fund. The bill repeals the Maryland Industrial Land Act (MILA), the Maryland Industrial and Commercial Revitalization Fund (MICRF), the Brownfields Revitalization Incentive Program (BRIP), the Animal Waste Technology Fund, the Seafood and Aquaculture Loan Fund, the Child Care Special Loan Fund, and the Day Care Facilities Direct Loan Fund.

The MEDAF statute is amended so as to reflect the capacities, purposes, and financing

options of the repealed funds by allowing:

- funds to be used for redevelopment of Brownfields sites, creation and expansion of day care and child care facilities, animal waste technology projects, and aquaculture projects;
- the fund to award grants and to make investments in addition to its loan capacity;
- direct loans to businesses that represent a “strategic” economic opportunity;
- assistance to businesses and local governments for projects that represent a local economic development opportunity; and
- grants to local economic development loan funds.

The bill requires that grant funded projects carried out by local jurisdictions must be consistent with an economic development plan or strategy of the county or municipality. The fund may award up to 50% of the costs of preparing such plans for a county or municipality not to exceed \$50,000 in a three-year period.

The bill transfers the funds that are on deposit in the repealed funds to MEDAF on July 1, 2000. The bill further repeals the termination date of MEDAF.

Changes to the Maryland Industrial Development Financing Authority (MIDFA)

The bill further consolidates the Day Care Facilities Guarantee Fund, the Enterprise Deposit Incentive Fund, and the Maryland Energy Financing Administration (MEFA) into the MIDFA by:

- repealing the three programs;
- expanding the purposes of MIDFA to include the encouragement of the creation and expansion of day care facilities;
- allowing MIDFA to issue bonds for energy conservation projects and energy projects; and
- creating a linked deposit fund to replace the Maryland Enterprise Deposit Incentive Fund.

Any obligations of the repealed funds, except MEFA, will be considered obligations of MIDFA after July 1, 2000. The repeal of MEFA takes effect January 1, 2002.

Changes to the Economic Development Opportunities Program Fund (Sunny Day Fund)

The bill authorizes the fund to pay DBED for administrative, legal, or actuarial expenses incurred by DBED in connection with transactions funded by transfers to DBED from the fund. Further, the bill authorizes investments to be made from the fund.

Other Provisions

The bill completely repeals two inactive funds: the Enterprise Zone Venture Capital Guarantee Fund and the Maryland Workforce Training Fund.

Current Law:

- The following are descriptions of the current and separate funds and programs that the bill aims to consolidate into The MEDAF.

MEDAF, established in 1999, provides businesses with low-interest loans to finance working capital, buildings, equipment, and fixtures so long as the business is in an eligible business sector and the project has a strong potential for expanding or retaining employment within the State. The fund is targeted at large businesses and has a minimum loan amount of \$250,000. Eligible sectors are determined annually by the authority created to administer the fund.

MILA was created in 1972 as a mechanism for the State to partner with local governments in the development of industrial parks and shell buildings as a spur for private investment. Loans under this program can be made to the local government or directly to a private business, and the local government is required to pledge a repayment guarantee for at least 40% of the loan amount. Effective in 1998, the fund may also make grants to capitalize local revolving loan economic development funds.

MICRF was created in 1979 to foster redevelopment efforts, again in partnership with local governments. This program can offer loans, grants, or conditional loans. The local government partner is required, in most cases, to pledge its full faith and credit to secure repayment of at least 40% of any loan, and contribute 10% of eligible project costs as cash.

In 1997, *BRIP* was established to encourage the cleanup and redevelopment of contaminated industrial and commercial properties. Eligible properties are identified in cooperation with local governments and the Maryland Department of the Environment and evaluated for funding based on the economic development potential of the site. A local government wishing to participate is required to pass an ordinance directing a portion of the incremental property tax revenue due to redevelopment to the incentive fund. Grants or loans can be made under this program.

The *Seafood and Aquaculture Loan Fund* was created in 1990 to promote the aquaculture industry in Maryland. The fund provides low-cost loans to individuals or businesses involved in seafood processing or aquaculture in order to finance the acquisition, construction, renovation, and excavation of real property or the acquisition of equipment and fixtures. In 1995, in an effort to increase the loan activity, the program was expanded to allow the fund to make loans to start a seafood processing or aquaculture operation, rather than only to improve existing operations. Further, the maximum allowable financing was increased.

The *Child Care Special Loan Fund* began in 1992. The fund lends child care providers funds to expand or improve their facilities, to meet State and local licensing requirements, and to improve the quality of care. The fund is federally funded and the funds are transferred to this program from the Department of Human Resources.

DBED administers the *Day Care Facilities Direct Loan Fund*, which was established in 1988 to be used as a nonlapsing revolving fund to make direct loans for expansion or development of child care facilities in the State. The fund lends up to 50% of the costs of construction, renovation, or acquisition of real property to day care providers.

The *Animal Waste Technology Fund* was created in 1998 to provide financial assistance to individuals and business enterprises that conduct research or develop technologies that are intended to reduce the amount of nutrients from animal waste that is released into State waters. The fund is a special continuing, non-lapsing fund which will offer grants, loans, loan guarantees, and equity investments.

- The following is the current structure of what would be MIDFA under the terms of the bill.

MIDFA was created in 1965 to expand the access of Maryland businesses to capital markets and to reduce the risk that lenders may perceive in making loans. MIDFA issues taxable and tax-exempt bonds on behalf of eligible businesses, insures bonds issued by political subdivisions or itself, and insures conventional loans made by private lenders. The Trade Financing Program targets a portion of the available reserve to insure loans to businesses which export and import goods through Maryland ports and airports.

MEFA, established in 1981, issues tax-exempt or taxable revenue bonds in support of energy conservation or energy generation projects. Funds can be used by businesses for long-term financing of land, buildings, and equipment. This program operates through MIDFA, and MIDFA may insure bonds issued by MEFA.

The *Day Care Facilities Guarantee Fund* was established in 1983 to provide guarantees of loans for the development or expansion of group day care facilities. The fund can guarantee up to 80% of a loan by a commercial bank, thrift institution or private lender to an applicant to finance a day care project. Loans can be used for the purchase of land, equipment, and supplies; renovation; building construction; and working capital.

The *Maryland Enterprise Incentive Deposit Fund* was created to stimulate economic and employment growth in rural areas of the State that have high unemployment. The fund assists small businesses in obtaining loans at lower than market rates for the acquisition of land, buildings, machinery, and equipment by accepting a below-market rate on funds

deposited with the private lender.

- The following is a description of the Sunny Day Fund.

The *Sunny Day Fund* was created in 1988 to allow the State to respond to extraordinary opportunities to retain or attract jobs. The fund is used in those situations where the capacity of existing programs is inadequate. The fund is not limited to a predetermined set of eligible uses, and therefore is more flexible than other financing programs. The fund may not use its resources to pay for administrative, legal, or actuarial expenses. The only operating revenues that the fund may accept are loan repayments and interest. Earnings from investments may not be accepted by the fund.

- The following is a description of the funds that the bill repeals completely.

The *Maryland Workforce Training Finance Fund* was created in 1995 to provide job training loan assistance to employers who want to provide their workers with educational enhancements or job training. The fund is intended to support private employer investment in workforce training by providing loan guarantees and other credit enhancements by working through commercial lending institutions, with priority given to companies located in enterprise zones. Although the fund is authorized to provide up to \$10 million in enhancements, the fund has never been capitalized and is inactive.

The *Enterprise Zone Venture Capital Guarantee Fund* provides loan insurance to projects that are reasonably expected to create new employment opportunities in an enterprise zone. The fund is inactive.

Background: In accordance with Chapters 299 and 301 of 1999, and the Joint Chairmen's Report of 1999, a study panel was convened during the 1999 interim to review the potential for consolidating the current financing programs under DBED. The study panel's membership included legislative representatives, local economic development officials, and private sector representatives. This bill represents the final recommendations of the panel. Further, the study panel recommends that the following funds and programs remain in their current form: the Smart Growth Economic Development Infrastructure Fund (One Maryland); the Enterprise Investment Fund; the Maryland Venture Capital Trust; the Maryland Competitive Advantage Financing Fund; the Maryland Small Business Development Financing Authority; the Community Development Block Grant program; and the Maryland Economic Adjustment Fund.

State Fiscal Effect: The bill transfers the funds that are on deposit in MILA, MICRF, BRIP, the Animal Waste Technology Fund, the Seafood and Aquaculture Loan Fund, the Child Care Special Loan Fund, and the Day Care Facilities Direct Loan Fund to MEDAF on July 1, 2000. **Exhibit 1** shows the proposed funding levels for fiscal 2001 under the current and proposed structure.

Exhibit 1**Funding for Consolidated Funds
(\$ in thousands)**

| Funds | FY 2000 Appropriation | FY 2001 Allowance | Under the Bill's Provisions |
|--|----------------------------------|------------------------------|--|
| MICRF | \$12,000 | \$12,000 | \$0 |
| MILA | 4,000 | 4,000 | 0 |
| Animal Waste Technology | 1,000 | 1,000 | 0 |
| Day Care Direct Lending | 800 | 800 | 0 |
| Child Care Special Loan Fund (Federal Funds) | 50 | 50 (est.) | 0 |
| Seafood & Aquaculture | 500 | 500 | 0 |
| BRIP | 1,250 | 800 | 0 |
| MEDAF | 4,750 | 10,000 | 29,150 |

The federal funding available for the Child Care Special Loan Fund will be transferred to the MEDAF. The funding level for the program is estimated at \$530,000, including an estimated federal appropriation of \$50,000 in fiscal 2001.

No funds will be transferred to MIDFA as a result of the bill. The fiscal 2001 proposed budget includes a \$2.5 million general fund PAYGO allowance for MIDFA to increase the balance in the insurance reserve.

It is not expected that the bill will affect DBED's funding or staffing needs. Operating costs will remain at current budgeted levels.

The bill further allows DBED to make investments from the Sunny Day Fund. Currently, the fund may accept only loan repayments and related interest as revenue. The bill would allow the fund to make investments beyond loans and grants. For example, the bill would allow the fund to be a co-owner of a building for an approved Sunny Day project. The fund would be authorized to accept a profit upon the sale of the building. Accordingly, special fund revenues could increase to the extent that DBED makes investments from the Sunny Day fund.

Local Fiscal Effect: The bill requires that grant funded projects carried out by local jurisdictions must be consistent with an economic development plan or strategy of the county or municipality. To the extent that a local jurisdiction would need to develop an economic development plan or strategy to reap the benefits of grant programs, expenditures for that jurisdiction could increase. Such costs, however, could be partially offset as MEDAF may award up to 50% of the costs of preparing such plans for a county or municipality not to exceed \$50,000 in a three-year period.

Additional Information

Prior Introductions: None.

Cross File: HB 972 (Delegate Busch, *et al.*) - Economic Matters.

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

Fiscal Note History: First Reader - February 25, 2000
dncsjr Revised - Senate Third Reader - April 7, 2000

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