

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 891
Economic Matters

(Montgomery County Delegation)

Finance

Montgomery County - Investment Authority
MC 18-10

This bill authorizes Montgomery County, through the county's economic development fund, to make an equity investment in a company that is located in the county or agrees to relocate its business to the county. The county may not acquire an ownership interest exceeding 25% of any enterprise.

Fiscal Summary

State Effect: None.

Local Effect: Montgomery County investment revenues from economic development investments may be affected, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill specifies the purposes which a business may use funds invested by the county and establishes the terms of an equity investment that must be set forth in a funding agreement. Generally, these purposes include operating, capital, or research and development expenses. At the county's discretion, a funding agreement made with a company may include an investment agreement and, a limited partnership agreement, a preferred stock agreement, or other documents that the county may require. A funding agreement must prohibit the county from participating in selection of the management of the company; engaging in oversight of the operation of the company; or assuming any present or future liability of the company. Notice of each equity investment made under the bill must be posted in a readily accessible and clearly identified location on the

Montgomery County government web site within five days after the date on which the county initiates the equity investment transaction.

Current Law: For economic development purposes, certain statewide resource development and revenue authorities are authorized to make equity investments in qualifying companies that operate in the State. Counties are authorized to create industrial development authorities to promote economic development. These authorities may offer loans and provide grants to private enterprises but are not authorized to make a direct equity investment in an enterprise.

Local governments are required to establish and follow an investment policy consistent with guidelines established by the State Treasurer. The guidelines established by the State Treasurer generally require a local government investment policy to adhere to the same investments authorized under the State Finance and Procurement Article. These guidelines do not allow a local government to make a direct equity investment in a business in the State. The investment policy for Montgomery County mirrors the State Treasurer's guidelines.

Background: The Montgomery County Department of Economic Development works with public and private partners to retain, attract, and create businesses that support a broad array of employment opportunities. The department undertakes marketing, business development, technical assistance, skilled work force development, advocacy, outreach, partnering, capital projects, and financing activities. The department administers many grant and loan programs for businesses that seek to become established or grow in the county. As of June 30, 2009, the county had \$600,000 in outstanding loans and/or grants that have been extended to various companies under its economic development fund programs.

Local Fiscal Effect: Generally, local governments are limited to investing in high-quality investments. Equity investments may have greater variability than the high-quality investments allowed under current law, resulting in potentially higher investment returns; however, equity investments also have greater risk than investments allowed under current law. These risks include the potential for total loss of the investment.

Authorizing the Montgomery County Department of Economic Development to make equity investments in businesses in the State may provide the county with an additional tool to support economic development in the county.

Small Business Effect: Small businesses that receive economic development funding as a result of the bill receive a meaningful benefit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Montgomery County, Maryland State Treasurer's Office,
Department of Legislative Services

Fiscal Note History: First Reader - March 2, 2010
mpc/hlb Revised - House Third Reader - March 31, 2010

Analysis by: Erik P. Timme

Direct Inquiries to:
(410) 946-5510
(301) 970-5510