

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 601

(Senator Miller, *et al.*)

Budget and Taxation

Ways and Means and Appropriations

Business and Economic Development - Maryland E-Nnovation Initiative Program

This bill establishes the Maryland E-Nnovation Initiative Program. The Maryland E-Nnovation Initiative Fund Authority (MEIFA) is established in the Department of Business and Economic Development (DBED), and the Maryland E-Nnovation Initiative Fund (MEIF) is established as a special, nonlapsing fund. Distributions to MEIF from revenues attributable to a portion of the State admissions and amusement tax and additional required appropriations by the Governor total \$8.5 million annually from fiscal 2016 through 2021. Nonprofit institutions of higher education in the State may create research endowments and, upon securing matching private donations, MEIF funds may be distributed to the endowments. Investment earnings on the endowments must be expended to further basic and applied research in scientific and technical fields of study as specified by the bill and as determined by MEIFA. DBED must administer MEIF and must adopt regulations to implement the bill.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund revenues decrease by \$7.3 million in FY 2016 and significantly through FY 2021 from required distributions of general fund revenue attributable to the State admissions and amusement tax to MEIF. General fund expenditures increase by at least \$1.2 million in FY 2016 and significantly thereafter through FY 2021 to meet the required \$8.5 million annual appropriation to MEIF. Accordingly, special fund revenues for MEIF increase by at least \$8.5 million annually in FY 2016 through 2021 from admissions and amusement tax revenue distributions and additional required general fund appropriations. Of that amount, approximately \$8.3 million annually is for distributions to nonprofit institutions of higher education and the remaining balance is for DBED administrative costs. Higher education revenues

increase from FY 2016 through 2021 from distributions from MEIF and from interest earnings. Higher education expenditures increase beginning in FY 2016 from interest earnings on endowments established under the bill. **This bill establishes a mandated appropriation in FY 2016 through 2021.**

| (\$ in millions) | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|------------------|---------|---------|---------|---------|---------|
| GF Revenue | \$0 | (\$7.3) | (\$5.3) | (\$5.2) | (\$5.1) |
| SF Revenue | \$0 | \$8.5 | \$8.5 | \$8.5 | \$8.5 |
| Higher Ed Rev. | \$0 | \$5.8 | \$5.8 | \$5.8 | \$5.8 |
| GF Expenditure | \$0 | \$1.2 | \$3.2 | \$3.3 | \$3.4 |
| SF Expenditure | \$0 | \$8.5 | \$8.5 | \$8.5 | \$8.5 |
| Higher Ed Exp. | \$0 | - | - | - | - |
| Net Effect | \$0.0 | (\$2.7) | (\$2.7) | (\$2.7) | (\$2.7) |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Program Funding

MEIF receives a total of at least \$8.5 million annually from fiscal 2016 through 2021. For those years, the general fund revenue attributable to the State admissions and amusement tax on electronic bingo and electronic tip jars is instead distributed to MEIF. Additionally, for those years, the Governor must appropriate an amount to MEIF that when combined with the distribution from the State admissions and amusement tax equals at least \$8.5 million. Therefore, MEIF receives at least \$51.0 million in total from fiscal 2016 through 2021.

Maryland E-Innovation Fund and Authority

MEIF is established as a special, nonlapsing fund in DBED. The Secretary of Business and Economic Development must manage and supervise the fund. The fund consists of (1) revenue distributed to the fund under the bill; (2) money appropriated in the State budget; and (3) any other money from any other source accepted for the benefit of the fund. The State Treasurer must invest the money of the fund in the same manner as other State money may be invested. Any investment earnings accrue to the fund. Expenditures from the fund may only be made in accordance with the State budget.

DBED may use the fund to (1) finance research endowments at nonprofit institutions of higher education in scientific and technical fields of study and (2) pay the related administrative, legal, and actuarial expenses of the department.

The bill establishes a seven-member MEIFA within DBED. Members of MEIFA may not receive compensation but are entitled to reimbursement for expenses. MEIFA must provide advice to and consult with DBED in connection with the administration of the Maryland E-Innovation Initiative Program.

Distribution from MEIF to Create Research Endowments

Subject to specified conditions, the governing body of each nonprofit institution of higher education in the State may create and administer one or more research endowments to receive distributions from MEIF and “qualified donations.”

A private donation to a research endowment must be considered a qualified donation if (1) the donation or pledge is expressly restricted by the donor for one or more of the eligible uses for MEIF proceeds under the bill; (2) the individual donation or pledge is a minimum of \$500,000 or is bundled with other qualified donations to meet the \$500,000 threshold; and (3) the nonprofit institution of higher education accepts the donation from specified entities. All or a portion of unrestricted gifts or bequests may also be designated by the institution for use as a qualified donation. A qualified donation *excludes*:

- any donation received by an institution prior to October 1, 2014;
- educational or general fees, auxiliary fees, or other student fees generated by the institution;
- proceeds from specified debt instruments or any other obligation of repayment by the governing body of an institution; or
- any other funds received from the State or federal government.

The president of each institution or the president’s designee must make the initial determination of whether a donation constitutes a qualified donation. The president must also provide a report to the governing body of the institution at least once each fiscal year regarding the amount of qualified donations the institution has received.

Endowment proceeds must be expended to further basic and applied research in scientific and technical fields of study as determined by MEIFA that offer promising and significant economic impacts and the opportunity to develop clusters of technological innovation in the State, including but not limited to engineering, health sciences, and cybersecurity. Proceeds may only be spent (1) for the base salaries of newly endowed

department chairs and associated staff and support personnel; (2) to fund related graduate and undergraduate student research fellowships; or (3) to purchase basic infrastructure including lab equipment and other related materials.

An individual in a position funded by endowment proceeds must (1) work at least one day each week in support of a federal laboratory or associated federal laboratory research support organization; (2) hold a joint appointment or secondary position at another nonprofit institution of higher education in the State; or (3) work at least one day each week in support of entrepreneurial activities with a company engaged in one or more of the research areas specified in the bill.

MEIFA must issue eligibility criteria regarding the expenditure of endowment proceeds to pay the base salaries of personnel, fund student fellowships, and purchase basic infrastructure.

Distributions from MEIF

The governing body of each institution must submit a research endowment plan with specified requirements to MEIFA before submitting its first request for a distribution of matching funds from MEIF.

Generally, MEIFA may make available up to 25% of cumulative program funds from MEIF to a single institution to match qualified donations. An equal amount of qualified donations must be obtained by an institution prior to the distribution of matching funds. The institution must then submit a request with specified information to MEIFA. MEIFA must review each request for matching funds for compliance with the provisions of the bill and DBED regulations. If MEIFA approves the request, it must distribute matching funds to the applicable research endowment in an amount equal to the qualified donations.

Within 90 days after approval by MEIFA of a request for matching funds, an institution must deposit an amount of qualified donations equal to or greater than the total amount of funds allocated for distribution to the institution under the bill. If an institution does not deposit sufficient qualified donations by the deadline, any allocated funds that have not been distributed to the institution must be reallocated to another institution. If MEIFA has not allocated funds by the deadline, MEIFA may distribute additional funds to an institution that has previously received 25% of cumulative program funds from MEIF.

Reporting Requirement

Beginning January 1, 2016, DBED must report annually to the Governor and the Senate Budget and Taxation and House Ways and Means committees on specified information

related to the implementation of the program. DBED must publish the report on its website. The published report may not include any proprietary or confidential information.

Current Law/Background:

Admissions and Amusement Tax

Generally, the total State admissions and amusement tax rate on net proceeds from electronic bingo and electronic tip jar machines is 30%. Of that total, the revenue attributable to a State admissions and amusement tax rate of 20% is distributed to the general fund. The revenue attributable to a tax rate of 5% is distributed to the special fund for Preservation of Cultural Arts in Maryland, and the remaining tax revenue is distributed to either the Maryland Stadium Authority, the county, or the municipality that is the source of the revenue. The bill redirects *only* the revenue attributable to a State admissions and amusement tax rate of 20% that accrues to the general fund, and it leaves all other revenue attributable to the tax unchanged. **Exhibit 1** shows estimated general fund revenues from the State admissions and amusement tax.

Exhibit 1
Estimated State Admissions and Amusement Tax Revenue
Fiscal 2016-2021
(\$ in Millions)

| | <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> |
|----------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| General Fund Revenue | \$7.3 | \$5.3 | \$5.2 | \$5.1 | \$5.0 | \$4.9 |

Note: Assumes 25% revenue loss in fiscal 2017 from the opening of a casino in Prince George’s County.

Source: Board of Revenue Estimates, Department of Legislative Services

Endowed Chairs

MEIF revenues (net of DBED administrative costs) – in addition to the matching private donations necessary to receive State money under the program – are to be used by nonprofit institutions of higher education in the State to create and administer one or more research endowments. State-supported endowment programs with a private match component exist in several states, including Kentucky, South Carolina, and West Virginia.

The West Virginia Legislature established an endowment program in 2008 with a \$50 million one-time appropriation of surplus revenue. Also known as *Bucks for Brains*, the Research Trust Fund is an endowment that allows Marshall University and West Virginia University to provide a dollar-for-dollar state match of private contributions to support expansions to research faculty and infrastructure. The program supports research in energy, biotechnology, biomedical, identification technology, material science, engineering, and environmental science.

As of January 2013, both Marshall University and West Virginia University had achieved donations to match their state allotment of \$15 million and \$35 million, resulting in total available funds of \$30 million and \$70 million, respectively.

At Marshall University, endowments have been directed to three main areas – support for student research, support for research in specific units or departments, and support for research in designated disciplines. The student research endowments support scholarships and stipends for students engaged in both undergraduate and graduate research. The funds designated for specific units or departments enable a multidisciplinary approach to economic development through research, innovation, and commercialization. The funds to support designated disciplines provide endowed professorships or research support for faculty members in areas such as dementia, river biology, safety engineering, obstetrics and gynecology, and translational sports medicine.

West Virginia University created 86 private endowments to support research. These endowments include 12 chairs and professorships, 14 undergraduate scholarships, 15 graduate fellowships, 43 broad-based research support funds, and 2 library endowments.

In addition, the interest generated from the Research Trust Fund was placed into an account to support science, technology, engineering, and mathematics research and education at West Virginia's predominantly undergraduate institutions and the West Virginia School of Osteopathic Medicine. As of January 2013, five predominantly undergraduate institutions had been awarded \$100,000 from the interest fund.

State Fiscal Effect:

General Fund Revenues and Expenditures

General fund revenues decrease by \$7.3 million in fiscal 2016 and significantly through fiscal 2021 from required distributions of general fund revenue attributable to the State admissions and amusement tax. General fund expenditures increase by at least \$1.2 million in fiscal 2016 and significantly thereafter through fiscal 2021 from required appropriations to MEIF. Therefore, the general funds available for other purposes

decrease by at least \$8.5 million annually from fiscal 2016 through 2021. The impact on general fund revenues and expenditures from fiscal 2016 through 2021 is shown below in **Exhibit 2**.

Exhibit 2
General Fund Impact
Fiscal 2016-2021
(\$ in Millions)

| | <u>FY</u> <u>2016</u> | <u>FY</u> <u>2017</u> | <u>FY</u> <u>2018</u> | <u>FY</u> <u>2019</u> | <u>FY</u> <u>2020</u> | <u>FY</u> <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| General Fund Revenue Attributable to State Admissions and Amusement Tax | -\$7.3 | -\$5.3 | -\$5.2 | -\$5.1 | -\$5.0 | -\$4.9 |
| General Fund Expenditures to Meet \$8.5 Million MEIF Revenue Requirement | <u>1.2</u> | <u>3.2</u> | <u>3.3</u> | <u>3.4</u> | <u>3.5</u> | <u>3.6</u> |
| Impact on General Fund | -<u>\$8.5</u> | -<u>\$8.5</u> | -<u>\$8.5</u> | -<u>\$8.5</u> | -<u>\$8.5</u> | -<u>\$8.5</u> |

Note: Assumes 25% revenue loss in fiscal 2017 from the opening of a casino in Prince George’s County, consistent with the loss experienced when the Maryland Live casino opened in Anne Arundel County.

Source: Board of Revenue Estimates, Department of Legislative Services

DBED Administrative Expenditures

DBED is required to administer the program and indicates that it requires one program manager to oversee the distribution of MEIF funds to nonprofit institutions of higher education. DBED further indicates the need for contractual services for higher education expertise that the agency does not possess. The bill establishes that MEIF may also be used to pay for the administrative, legal, and actuarial expenses of DBED.

MEIF does not receive funding until fiscal 2016. Therefore, this estimate reflects the cost of hiring one program manager to oversee the allocation of funds under the bill beginning July 1, 2015. It includes a salary, fringe benefits, one-time start-up costs, contractual services, and ongoing operating expenses.

| | |
|--|------------------|
| Position | 1 |
| Salary and Fringe Benefits | \$103,201 |
| Contractual Services | 75,000 |
| Other Operating Expenses | <u>4,956</u> |
| Total FY 2016 DBED Expenditures | \$183,157 |

Future year expenditures reflect a full salary with annual increases and employee turnover, annual increases in ongoing operating expenses, and continued contractual services. While the precise timing is unknown, it is assumed that the program manager position is eliminated from DBED when MEIF special fund revenues are fully allocated. Thus, the position may not be needed as early as fiscal 2022.

MEIF Revenues and Expenditures – Higher Education Funding

Special fund revenues for MEIF increase by at least \$8.5 million annually in fiscal 2016 through 2021 from admissions and amusement tax revenue distributions and additional required appropriations.

This estimate assumes MEIF revenue received in a fiscal year is allocated for research endowments in that fiscal year. However, the timing and extent of special fund expenditures for endowments may differ from this estimate. Under this assumption, special fund expenditures from MEIF increase by at least \$8.5 million annually from fiscal 2016 through 2021 to provide matching funds for endowments at nonprofit institutions of higher education and for DBED administrative expenses. Of that amount, approximately \$8.3 million annually is for distributions to nonprofit institutions of higher education and the remaining balance is for DBED administrative costs. These expenditures are summarized in **Exhibit 3**.

Exhibit 3
Special Fund Expenditures for MEIF
Fiscal 2016-2021

| | <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Beginning Year Balance | - | - | - | - | - | - |
| MEIF Revenue | \$8,500,000 | \$8,500,000 | \$8,500,000 | \$8,500,000 | \$8,500,000 | \$8,500,000 |
| DBED Admin. Costs | 183,200 | 183,600 | 163,600 | 168,800 | 149,700 | 156,000 |
| Allocations to Higher Education Institutions | 8,316,800 | 8,316,400 | 8,336,400 | 8,331,200 | 8,350,300 | 8,344,000 |
| Ending Balance | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

Note: MEIF = Maryland E-Innovation Initiative Fund; DBED = Department of Business and Economic Development.

Assuming 30% of MEIF funds remaining after DBED administrative costs is allocated to *private* nonprofit institutions of higher education (and that the remaining 70% is allocated to *public* institutions), revenues for public four-year institutions of higher education

increase by approximately \$5.8 million annually from fiscal 2016 through 2021. Higher education revenues also increase from interest earned on the endowment funds.

Higher education expenditures increase beginning in fiscal 2016 from interest earnings on endowment proceeds for the purposes authorized under the bill.

A fund balance in any year may be carried over to the following year. The Department of Legislative Services assumes the final MEIF payment to higher education institutions occurs in fiscal 2021; it could occur later depending on the ability of higher education institutions to raise matching funds.

Miscellaneous

Travel expenses for MEIFA members under the bill are anticipated to be minimal and absorbable within existing budgeted resources. The bill's reporting requirements for nonprofit institutions of higher education and for DBED can be handled with existing budgeted resources. DBED can adopt the required regulations with existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: HB 741 (Delegate Bohanan, *et al.*) - Ways and Means and Appropriations.

Information Source(s): Department of Business and Economic Development, Department of General Services, Maryland Higher Education Commission, Maryland Insurance Administration, University System of Maryland, University of Maryland Medical System, West Virginia Legislature, Department of Legislative Services

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