HB 943

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

House Bill 943 (The Speaker, *et al.*) (By Request - Maryland Economic Development and Business Climate Commission)

Economic Matters Finance

Economic Competitiveness and Commerce - Restructuring

This bill restructures the principal economic development entities in the State and creates a Secretary of Commerce in the Governor's Office to be the head of economic development policy and implementation efforts in the State. The Department of Business and Economic Development (DBED) is renamed to be the Department of Economic Competitiveness and Commerce (DECC). The Secretary of Commerce is responsible for DECC, the Maryland Technology Development Corporation (TEDCO), the Maryland Economic Development Corporation (MEDCO), and the Maryland Public-Private Partnership (P3) Marketing Corporation, a new entity established under the bill. The bill expresses legislative intent that funding be transferred to the P3 Marketing Corporation and that the BioMaryland Center be transferred to TEDCO.

Fiscal Summary

State Effect: General fund expenditures increase by $395,600 in FY 2016, increasing to $513,700 in FY 2017 and $587,600 in FY 2020 to establish the Office of the Secretary of Commerce. General fund expenditures for TEDCO due to the transfer of the BioMaryland Center and general fund expenditures to capitalize the new Economic Development Marketing Fund in the P3 Marketing Corporation are offset by corresponding general fund savings in DBED, under the assumptions discussed below. Special fund revenues and expenditures reflect transferring special funds from DBED to TEDCO and the ongoing capitalization of the Economic Development Marketing Fund. Several provisions of the bill have costs that cannot be reliably estimated at this time.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
SF Revenue	$1,000,000	$2,600,000	$2,678,000	$2,758,000	$2,841,000
GF Expenditure	$395,600	$513,700	$537,200	$561,800	$587,600
SF Expenditure	$1,000,000	$2,600,000	$2,678,000	$2,758,000	$2,841,000
Net Effect	($395,600)	($513,700)	($537,200)	($561,800)	($587,600)

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

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The principal economic development entities of the State are organized under the newly established Secretary of Commerce, as shown in **Exhibit 1**.

Office of the Secretary of Commerce

An Office of the Secretary of Commerce is established in the Governor's Office. The Secretary of Commerce is appointed by the Governor with the advice and consent of the Senate. The Secretary is the head of economic development policy and implementation efforts in the State and is the head of and responsible for the operations of DECC. The Secretary also monitors the operations of TEDCO, MEDCO, and the P3 Marketing Corporation; however, this may not be construed to limit the independence or operations of these corporations. The Secretary must:

- consult with and advise secretaries of other principal departments on coordination of the activities of the departments that relate to economic development policy and implementation efforts in the State; and
- monitor the activities of and coordinate policy for TEDCO, MEDCO, and the P3 Marketing Corporation.

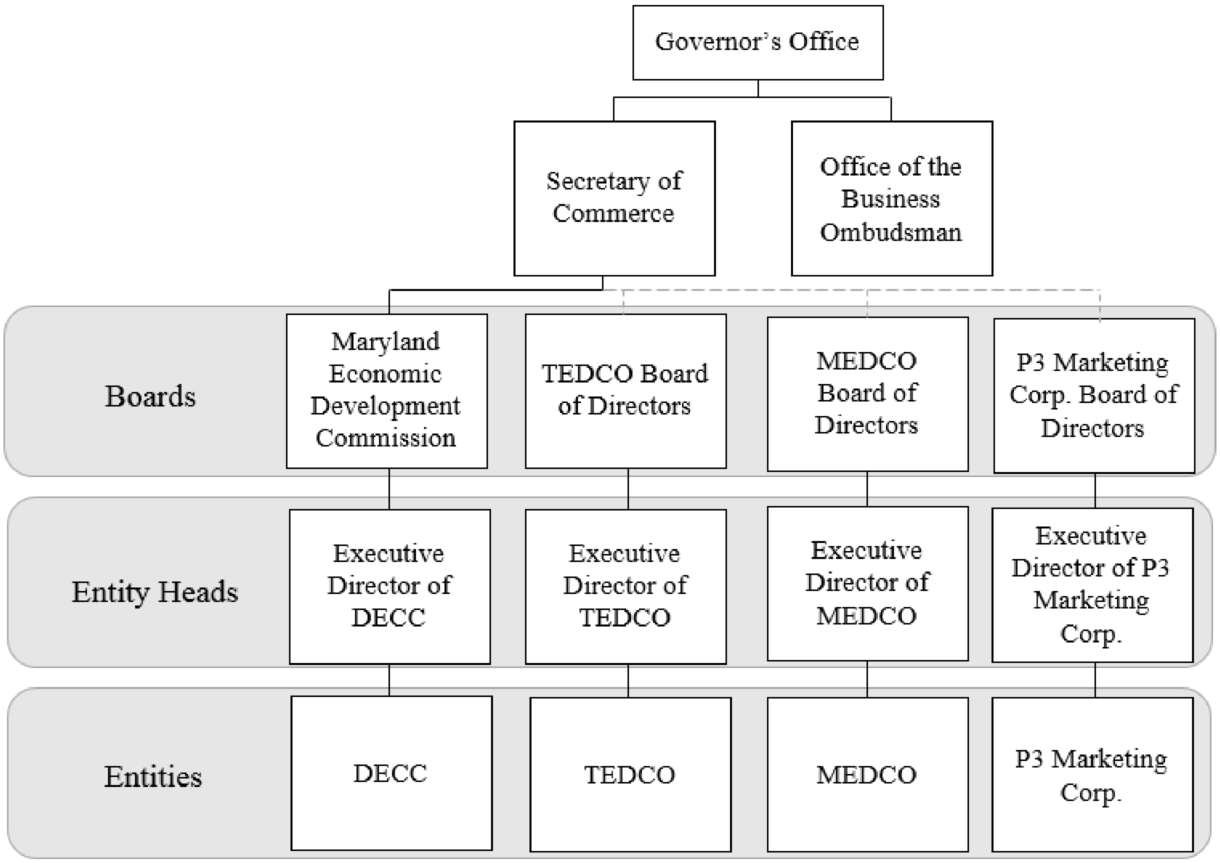
The Secretary has the further powers and duties of the existing Secretary of Business and Economic Development, with the enhanced jurisdiction and oversight provided under the bill.

Commerce Subcabinet

A Commerce Subcabinet composed of representatives of specified State agencies is established. The Secretary chairs the subcabinet and convenes the meetings of the subcabinet, which must occur each month. Further, the Secretary is responsible for the oversight, direction, and accountability of the work of the subcabinet. The Office of the Secretary of Commerce must provide the primary staff for the subcabinet. The subcabinet must:

- advise the Governor on proposals to enhance the State's business climate;
- gather information the Subcabinet considers necessary to promote its goals;
- collaborate to facilitate and expedite critical economic development projects in the State; and
- provide other assistance that may be required to further the goals of the State and enhance the State's business climate.

Exhibit 1
State Economic Development Entity Organization



DECC: Department of Economic Competitiveness and Commerce
MEDCO: Maryland Economic Development Corporation
TEDCO: Maryland Technology Development Corporation
P3 Marketing Corporation: Maryland Public-Private Partnership Marketing Corporation

Note: The Secretary of Commerce monitors the operations of and coordinates policy for TEDCO, MEDCO, and the P3 Marketing Corporation. The bill specifies that this provision may not be construed to limit the independence of these corporations.

Source: Maryland Economic Development and Business Climate Commission; Department of Legislative Services

Department of Economic Competitiveness and Commerce

DBED is reorganized from its current structure to DECC, which remains a principal department of State government. In addition to the current duties of DBED, the reorganized DECC must:

- establish and monitor performance measures to determine the success of outreach efforts to businesses;
- facilitate regular meetings among its regional experts, financial incentive team, and tourism development team to determine the success in meeting overall economic development strategic goals and in addressing the economic development needs of each region; and
- work with community colleges to enhance their role in providing workforce training services, including industry-specific education and training in response to the needs of the State.

DECC must also collect and assemble information and data available from instrumentalities (*e.g.*, TEDCO, MEDCO, and the P3 Marketing Corporation), as opposed to only from State units. DECC must use this data in the same manner as that required of data from State units. The authority of DECC to establish a specified publications account is also repealed.

While the Secretary of Commerce is the head of and responsible for the operations of DECC, the Secretary must employ an executive director to manage the operations of DECC on the Secretary's behalf. Except where otherwise specified in the bill, the bill states that the Executive Director of Economic Competitiveness and Commerce is the successor of the Secretary of Business and Economic Development. The executive director must advise the Secretary on all matters assigned to DECC and is responsible for carrying out the Secretary's policies on matters assigned to DECC. The executive director must have experience with and possess qualifications relevant to the activities and purposes of DECC. The executive director serves at the pleasure of the Secretary and is entitled to compensation provided in the State budget.

Regional Offices

The Secretary must establish regional offices in the local jurisdictions, which must (1) advise the Secretary on whether the economic needs of each local jurisdiction are being addressed and (2) coordinate with municipal and local economic development agencies.

Maryland Economic Development Commission

The purpose of the Maryland Economic Development Commission (MEDC) is expanded to include (1) advising the Secretary on economic development policy in the State;

(2) overseeing the *operations* of DECC and its units, rather than *solely* overseeing the department's efforts to support the creation, attraction, and retention of businesses and jobs; and (3) monitoring the operations of MEDCO, TEDCO, and the P3 Marketing Corporation, including those entities' efforts to support the creation, attraction, and retention of businesses and jobs. The President of the Senate and the Speaker of the House of Delegates each appoint two voting members of MEDC; the number of voting members appointed by the Governor is reduced by four members. The first four MEDC members whose terms expire after the effective date of the bill, or any vacant appointments up to four members on the bill's effective date, will become the appointees of the President and the Speaker. Additional nonvoting *ex officio* members are added to MEDC, including State legislators (designated by the Presiding Officers) and representatives of specified State entities. MEDC is authorized to form special subcommittees from its members to exercise the powers and functions of the commission between commission meetings.

The requirement that MEDC participate in marketing the State is removed. However, MEDC must (1) conduct periodic reviews of the economic development activities of DECC, TEDCO, MEDCO, and the P3 Marketing Corporation for compliance with the State's economic development strategic plan and (2) make recommendations to the Governor and the Secretary to improve economic development activities that fail to achieve economic development strategic goals or are inconsistent with priorities under the economic development strategic plan. Further, the department may not submit a budget request before MEDC reviews the request.

Transfer of DBED Programs to TEDCO

The purposes of TEDCO are expanded to include generally assisting early stage and start-up businesses in the State. The new executive director of DECC is added to the TEDCO board of directors.

Accordingly, the Invest Maryland Program, the Maryland Venture Fund Authority (MVFA), and the Enterprise Fund are transferred to TEDCO. The bill also specifies the General Assembly's intent that the BioMaryland Center, the office within DECC that supports the growth of the life sciences industry in Maryland, be transferred to TEDCO by January 1, 2016. (The BioMaryland Center is not established in statute.) The programs are left functionally unchanged, except that they are located in and administered by TEDCO rather than DECC.

The Attorney General must assign assistant Attorneys General to TEDCO and designate one as general counsel to TEDCO. The general counsel must (1) advise the executive director, board of directors, and any other TEDCO official as requested by TEDCO; (2) supervise other assistant Attorneys General to TEDCO; and (3) perform for TEDCO other duties that the Attorney General assigns. The general counsel may not provide any other services.

The remainder of the current law related to TEDCO is unchanged.

Establishment of Public-Private Partnership Marketing Corporation

The P3 Marketing Corporation is established as a body politic and corporate and an instrumentality of the State. The purposes of the corporation are to:

- create a branding strategy for the State;
- market the State's assets to out-of-state businesses;
- recruit out-of-state businesses to locate and grow in the State; and
- foster P3s that encourage the location and development of new businesses in the State.

A board of directors is established, consisting of various members from State government and private industry. A member of the board may not receive compensation as a member of the board but is entitled to reimbursement for expenses under the standard State travel regulations, as provided in the State budget. The term of appointed members is four years, and the terms of the initial appointed members expire as specified in the bill.

The corporation must employ an executive director, who must have experience with and possess qualifications relevant to the activities and purposes of the corporation. The Attorney General is the legal advisor to the corporation; however, with the approval of the Attorney General, the corporation may retain any necessary lawyers. The corporation may also retain any necessary accountants, financial advisors, or other consultants.

The corporation may do all things necessary or convenient to carry out the powers granted by the bill, including:

- adopt bylaws for the conduct of its business;
- maintain offices at a place the corporation designates in the State;
- accept loans, grants, or assistance of any kind from the federal or State government, local government, a college or university, or a private source;
- accept assistance from MEDCO;
- enter into contracts and other legal instruments;
- make specified financial transactions; and
- fix and collect rates, rentals, fees, royalties, and charges for services and resources the corporation provides or makes available.

The corporation is exempt from State and local taxes and generally exempt from State procurement law and provisions related to the sale and transfer of property. However, the corporation is subject to the Public Information Act; the board and the officers and employees of the corporation are subject to the Public Ethics Law; and the corporation, the board, and the employees of the corporation are subject to the policies and procedures of units exempt from State procurement law.

The books and records of the corporation are subject to audit at any time by the State and each year by an independent auditor that the Office of Legislative Audits approves. By October 1 of each year, the corporation must report to the Governor, the Secretary, and the General Assembly. The report must include a complete operating and financial statement covering the corporation's operations and a summary of the corporation's activities during the preceding fiscal year.

The officers and employees of the corporation are not subject to the specified provisions of law that govern the State Personnel Management System.

Economic Development Marketing Fund

The Economic Development Marketing Fund is established as a special, nonlapsing revolving fund that is not subject to reversion to the general fund. The fund is administered by the P3 Marketing Corporation and may only be used to market the State as a location for businesses to locate, retain, or expand their operations.

The fund consists of (1) money appropriated in the State budget; (2) money made available to the fund through federal programs or private contributions; (3) money derived by the corporation from the sale of advertising, publications, sponsorships, or other promotional marketing opportunities; and (4) any other money made available to the corporation for the fund. Investment earnings of the fund must be paid into the fund.

The bill specifies the intent of the General Assembly that at least $1.0 million of the fiscal 2016 State budget for the Division of Marketing and Communications in DECC be transferred to the corporation.

Other General Provisions

In every law, executive order, rule, regulation, policy, or document created by an official, an employee, or a unit of the State, the names and titles of those agencies and officials mean the names and titles of the successor agency or official.

Nothing in the bill affects the term of office of an appointed or elected member of any commission, office, department, agency, or other unit. An individual who is a member of a unit on the effective date of the bill must remain a member for the balance of the term to which appointed or elected, unless the member sooner dies, resigns, or is removed under provisions of law.

Except as expressly provided to the contrary in the bill, any transaction or employment status affected by or flowing from any change of nomenclature or any statute amended, repealed, or transferred by the bill and validly entered into or existing before the effective date of the bill and every right, duty, or interest flowing from a statute amended, repealed, or transferred by the bill remains valid after the effective date of the bill and may be terminated, completed, consummated, or enforced as required or allowed by any statute amended, repealed, or transferred by the bill as though the repeal, amendment, or transfer had not occurred. If a change in nomenclature involves a change in name or designation of any State unit, the successor unit must be considered in all respects as having the powers and obligations granted to the former unit.

Except as expressly provided to the contrary in the bill (1) the continuity of every commission, office, department, agency, or other unit is retained and (2) the personnel, records, files, furniture, fixtures, and other properties and all appropriations, credits, assets, liabilities, and obligations of each retained unit are continued as the personnel, records, files, furniture, fixtures, properties, appropriations, credits, assets, liabilities, and obligations of the unit under the laws enacted by the bill.

Nothing in the provisions establishing the P3 Marketing Corporation and the associated Economic Development Marketing Fund may be construed to prevent DECC from expending funds appropriated in the State budget to DECC directly for marketing purposes.

Current Law/Background: The mission of DBED is to strengthen the Maryland economy. DBED develops and implements programs that aim to generate new jobs or retain existing jobs, attract business investment in new or expanding companies, and promote the State's strategic assets. The department's primary goals are to increase business investment in Maryland; enhance business success and the competitiveness of businesses in their distinct markets; and develop a diverse economic base and ensure that all jurisdictions share in the State's economic vitality.

Maryland Economic Development Commission and DBED

The purpose of MEDC is to establish economic development policy in the State and oversee the department's efforts to support the creation of, attract, and retain businesses and jobs. MEDC must develop and update an economic development strategic plan for the State and recommend to the Governor the program and spending priorities needed to implement the plan. In addition, among other things, MEDC must:

- review the allocation of financing incentives;
- participate in marketing the State and encouraging new businesses to locate in the State;

- seek contributions from the private sector to supplement economic development programs and financial incentives to business; and

- carry out other economic development activities that the Governor requests.

DBED's divisions include the Office of the Secretary; the Division of Business and Enterprise Development; the Division of Marketing and Communications; and the Division of Tourism, Film, and the Arts. The department's mission and goals are supported by these four divisions:

- *Office of the Secretary:* The Office of the Secretary provides leadership and direction to the activities of the department and maintains working relationships with State and federal agencies, county and municipal governments, businesses, and organizations. Also included under the purview of the Secretary is the Maryland Biotechnology Center.

- *Division of Marketing and Communications:* This division promotes the State of Maryland throughout the nation as an ideal location to establish new business facilities. Business recruitment teams specializing in advanced technology, life sciences, financial services, alternative energies, and science and security promote Maryland using industry-focused business recruitment and marketing strategies.

- *Division of Business and Enterprise Development:* This division unites the department's field staff, small business, and finance teams to provide assistance to the Maryland business community and to the department's local economic development partners. The division provides access to capital markets through a variety of financing programs, worker training assistance for new and expanding businesses, and funding assistance to local jurisdictions to support infrastructure and economic development efforts.

- *Division of Tourism, Film, and the Arts:* This division's mission is to strengthen the State's quality of life and encourage economic development by investing in and promoting Maryland's unique historic, cultural, and natural assets.

DBED administers several primary business assistance programs. These programs provide resources upon which the Division of Business and Enterprise Development draws when assembling incentives to help a business expand or locate in Maryland. The following are the five main assistance programs in the operating budget:

- *Maryland Economic Development Assistance Authority and Fund:* The Maryland Economic Development Assistance Authority and Fund was established in 1999 as a revolving loan fund. The fund provides below-market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses.

- *Maryland Small Business Development Financing Authority:* This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted in 2001 broadened the Maryland Small Business Development Financing Authority's scope to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria.

- *Maryland Enterprise Fund:* This program provides capital through equity purchases for start-up companies that are developing innovative technologies. Individual investments, except those made in venture capital limited liability companies, are limited to $500,000 and may not exceed 15 years in duration. Beginning in fiscal 2013, this program became the means for the department to implement the Invest Maryland Program.

- *Maryland Economic Adjustment Fund:* This program was originally established to provide loans to new or existing companies in communities suffering from dislocation due to defense adjustments. The program has expanded and is often used as a source of direct lending assistance to small businesses.

- *Economic Development Opportunities Program Fund (Sunny Day):* This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged.

Invest Maryland Program

Chapter 409 of 2011 created the Invest Maryland Program. The legislation created a State-supported venture capital program and also increased funding for the Enterprise Fund and other DBED programs. These programs were funded through an auction of a tax credit against the insurance premium tax for insurance companies. Proceeds totaling $84.0 million were collected under the program, a portion of which is allocated each year in the State budget.

BioMaryland Center

The Maryland Biotechnology Center (also known as the BioMaryland Center) was established in DBED in fiscal 2009 as a "one-stop shop" to serve as a central repository of statewide resources for biotechnology companies. The center is not established in statute. The center is one component of the BioMaryland 2020 initiative created by the Life Sciences Advisory Board, which remains housed in DECC. The center has nine (budgeted) staff who provide assistance to area companies; market the State's biotechnology resources; and build relationships with federal laboratories, universities, and private-sector companies. Among other activities, the center awards grants ($50,000 to $200,000 per company) to fund a limited number of life sciences projects that move research closer to commercialization.

Maryland Technology Development Corporation

TEDCO was launched in 1998 to help commercialize the results of scientific research and development conducted by higher education institutions, federal laboratories, and private-sector organizations. TEDCO also aims to promote new research activity and investments that lead to business development in Maryland.

To achieve its goals, TEDCO provides nonequity investments to early stage technology businesses, and it funds development and patenting of new technologies at research universities. TEDCO also develops linkages with federal research facilities in the State and helps companies pursue research funds from federal and other sources.

Maryland Economic Development Corporation

MEDCO is a nonbudgeted entity created in 1984 by the General Assembly to assist business and governmental entities through ownership, financing, and development of real and personal property projects.

MEDCO purchases or develops property that is leased to others and makes loans to companies throughout the State to maintain or develop facilities. MEDCO has broad powers to finance projects and most often is a conduit issuer of tax-exempt revenue bonds to an eligible tax-exempt borrower. MEDCO has also issued its bonds to finance its own projects, which it owns and operates. MEDCO-owned projects consist mostly of student housing projects. MEDCO also retains a portfolio of loans that were originated by DBED.

The bonds issued by MEDCO consist primarily of nonrecourse revenue bonds, meaning MEDCO is not liable to bondholders or lenders in the event of a project or borrower default beyond the revenues and the resources of the project specifically pledged to support the transaction. Each project has self-supporting revenues, and no project is cross-collateralized. With the exception of a few capitalized lease transactions with the State, MEDCO debt is not debt of the State, and there is no implied State guaranty or State obligation to protect bondholders from losses.

Maryland Economic Development and Business Climate Commission

In March 2014, the President of the Senate and the Speaker of the House of Delegates established and appointed the Maryland Economic Development and Business Climate Commission (MEDBCC) to focus on the State's economic development structure and incentive programs in order to make recommendations to the Presiding Officers.

The commission's 21 members come from a broad spectrum of backgrounds and have had business involvement in many states, as well as abroad. In 2014, the commission held 8 public meetings, including hearings in 7 parts of the State involving over 100 witnesses; reviewed well over 100 relevant documents; and discussed pertinent issues informally with a large number of individuals and organizations from the business, labor, government, academic, and related communities.

A report containing 10 findings and 32 recommendations, which were unanimously endorsed by the members of the commission, was submitted to the Presiding Officers in February 2015. The principal finding of the commission is that Maryland has not nearly reached its potential in growing business and creating jobs. The recommendations in the report address various short- and long-term aspects of this principal finding and related findings. At the request of the Presiding Officers, a subsequent report is anticipated later in 2015 that will investigate in further depth certain tax issues affecting economic development and the State's business climate. The report can be found here.

The commission also found that economic development entities need to be reorganized (finding 1) and that the State's economic development marketing strategy is ineffectual (finding 2), which led to several specific recommendations. Those generally implemented in the bill are:

- Elevate and consolidate economic development in the State by creating a new structure headed by a Secretary of Commerce. The report concludes:

  > Rather than have economic development programs in the State led by a regular agency secretary, the economic development programs should be consolidated under a newly created Secretary of Commerce. The Secretary should be housed within the Governor's Office to ensure that business climate and economic development policy receives increased attention. This figuration will further allow the Secretary to work across State agency lines to resolve business climate issues. Additionally, this new position will serve as a powerful signal that the issues important to the business community will be engaged by both the Administration and the General Assembly

- Empower a newly designed MEDC. The report concludes:

  As set by statute, the purpose of MEDC is also to oversee DBED's efforts to support the creation, attraction, and retention of businesses and jobs in the State. MEDC needs to be strengthened if it is to become the visible standard bearer for the State's economic development policy, programs, and progress. This desired result will necessitate an expansion of MEDC's statutory responsibilities to include specific oversight of DBED's operational activities.

- Realign economic development programs between DBED and TEDCO to build upon the strengths of each and to clarify where to access State business development resources. The report concludes:

  Testimony before MEDBCC indicated that TEDCO is regarded as being a highly effective facilitator of early stage business development and entrepreneurship. One strength often cited is its ability to understand the unique needs of entrepreneurs and to respond quickly to changing business conditions. Based on its history of success and on its particular strength in fostering entrepreneurship, the State should consolidate its early stage programs under TEDCO's purview.

- Bolster outreach efforts by expanding private participation in the State's marketing efforts. The report concludes:

  The State's marketing strategy for economic development and business growth has not adequately communicated the State's strengths and capacity to be a leader in providing economic opportunities, particularly in an innovation economy. Marketing and outreach efforts related to economic development and business growth need to be as nimble and responsive as private businesses are to changes in market demands. However, current marketing efforts, housed as a division within DBED, are subject to State agency hierarchies as well as State procurement and hiring practices, both of which are sometimes inconsistent with the demands of public markets.

State Fiscal Effect: General fund expenditures increase by $395,572 in fiscal 2016, increasing to $513,724 in fiscal 2017 and $587,590 in fiscal 2020 to establish the Office of the Secretary of Commerce. General fund expenditures for TEDCO due to the transfer of the BioMaryland Center and general fund expenditures to capitalize the Economic Development Marking Fund are offset by corresponding general fund savings in DECC, under the assumptions discussed below. Several provisions of the bill have costs that cannot be reliably estimated at this time, most significantly a State advertising campaign to attract new business, and it is unknown what efficiencies are experienced by restructuring DECC. The fiscal impact of each portion of the bill is discussed below.

Secretary of Commerce

The bill establishes the Office of the Secretary of Commerce (the Executive Director of Economic Competitiveness and Commerce is the successor of the current Secretary of Business and Economic Development). Accordingly, general fund expenditures increase by $395,572 in fiscal 2016, which accounts for the bill's October 1, 2015 effective date. This estimate reflects the cost of hiring a Secretary of Commerce, one senior policy advisor, and two administrative staff to perform the functions required by the bill. This assumes the Secretary receives a salary commensurate with the cabinet-level position and that the office has necessary staff. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	4
Salaries and Fringe Benefits	$376,677
Other Operating Expenses	18,895
Total FY 2016 Expenditures for New Office	**$395,572**

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

This is likely the minimum level of staffing required for a cabinet-level position. This assumes the administrative expenditures for the current Office of the Secretary of Business and Economic Development remain unchanged for the Executive Director of Economic Competitiveness and Commerce. To the extent that department staff are instead assigned to the Office of the Secretary of Commerce, general fund expenditures may be less than this estimate.

Restructuring of DBED to DECC

Necessary costs associated with changing the name of the department, the duties of certain employees, purchasing new agency letterhead, etc. are unknown at this time but are likely absorbable within existing budgeted resources.

The bill transfers the Enterprise Fund, MVFA, and the Invest Maryland Program from DECC to TEDCO. Accordingly, special fund revenues and expenditures decrease for DECC and increase correspondingly for TEDCO. In fiscal 2016, DECC special fund revenues and expenditures decrease by $2.8 million and $13.5 million, respectively (as the

Enterprise Fund continues to spend down its fund balance). Future year revenue and expenditure decreases are anticipated to range from $3.6 million to $4.6 million.

The bill also specifies the intent of the General Assembly that the BioMaryland Center be transferred from DECC to TEDCO by January 1, 2016. Assuming the transfer occurs on this date, general fund expenditures decrease for DECC by approximately $1.9 million in fiscal 2016 (half of the fiscal 2016 appropriation) and increase correspondingly for TEDCO. Future year general fund expenditures for DECC and TEDCO related to the transfer of the BioMaryland Center are estimated to be approximately $4.0 million, consistent with current funding levels.

Assuming the intent of the bill is to permanently reduce the size of DECC's Division of Marketing and Communications and to use the associated savings to fund the P3 Marketing Corporation, then the cost to the State, absent spending on advertising, is likely neutral, as discussed below.

DECC staff associated with responsibilities transferred to TEDCO and the P3 Marketing Corporation could remain with the department to provide additional resources to other programs and responsibilities – such as by providing increased staffing for an expanded MEDC under the bill. To the extent that positions are eliminated or transferred, general and/or special fund expenditures for DECC decrease.

Removing statutory provisions related to a consolidated publications account has no effect, as no such account currently exists.

Transfer of Programs to TEDCO

The bill transfers the Invest Maryland Program, MVFA, the Enterprise Fund, and the BioMaryland Center from DECC to TEDCO. The bill also requires the Attorney General to assign assistant Attorneys General to TEDCO and designate one as general counsel to TEDCO to provide specified legal services. Accordingly, special fund revenues and expenditures for TEDCO increase beginning in fiscal 2016. TEDCO can administer the programs and funds for about $1.0 million in fiscal 2016 and about $1.4 million to $1.5 million annually thereafter.

The bill authorizes TEDCO to use the Enterprise Fund to cover administrative and other costs of TEDCO, as is the current practice for DBED. Thus, this estimate assumes TEDCO hires five staff to administer the Invest Maryland program, as TEDCO employees, paid for from the Enterprise Fund, and that two additional assistant Attorneys General are assigned to TEDCO as State employees and paid for from the Enterprise Fund. TEDCO currently has one assistant Attorney General through an interagency agreement with DBED – this estimate assumes the position is transferred to TEDCO (but at no additional cost).

Assuming that the transfer of the BioMaryland Center occurs on January 1, 2016, general fund expenditures for TEDCO increase by $1.9 million in fiscal 2016 (half of the fiscal 2016 appropriation) and by approximately $4.0 million annually thereafter. This estimate assumes TEDCO hires two staff to administer the program, as TEDCO employees, paid for with general funds, consistent with how the program is currently funded in DECC.

TEDCO employees are not State employees; however, TEDCO receives an annual general fund appropriation through which it pays its employees and administers its programs. The fiscal 2016 State budget includes $18.5 million for TEDCO, $1.4 million of which is for salaries and wages.

Assuming corresponding decreases in general and special fund expenditures in DECC, there is a minimal effect on State expenditures due to these transfers. However, to the extent that DECC expenditures do not decrease, total State expenditures increase.

Establishment of P3 Marketing Corporation

The Economic Development Marketing Fund is established as a special, nonlapsing revolving fund, administered by the P3 Marketing Corporation, which may only be used to market the State as a location for businesses to locate, retain, or expand their operations.

The bill specifies the intent of the General Assembly that at least $1.0 million of the fiscal 2016 State budget for the Division of Marketing and Communications in DECC be transferred to the corporation. Assuming the intent of the bill is to permanently reduce the size of the division and to use the associated savings to fund the corporation, then the cost to the State, absent spending on advertising, is likely neutral. As the bill establishes the Economic Development Marketing Fund for use by the corporation, special fund revenues (from a State general fund appropriation) and expenditures for the corporation increase, offset by corresponding general fund expenditure decreases for DECC. The net cost to the State depends on the following:

- the size and scope of the corporation;
- if any efficiencies are realized through the movement of some marketing responsibilities from DECC to the corporation; and
- the size of the advertising budget, which is the most significant unknown cost.

At a minimum, to effectively implement the bill, the corporation must hire an executive director. Significant resources must be expended to attract top-level talent, and the position will almost certainly require a six-figure salary. For example, the directors of marketing at two separate State agencies make more than $130,000 annually.

Additionally, the cost and administrative burden of creating and housing a new business entity can be substantial. The corporation needs physical office space, basic office supplies, and administrative, financial, accounting, and legal services, at a minimum, to function.

The fiscal 2016 State budget for the Division of Marketing and Communications is $3.6 million, including $0.4 million for direct advertising/marketing. The division is funded through general funds ($2.8 million) and special funds ($0.8 million, or $0.7 million absent revenues from the Enterprise Fund). As noted above, the bill specifies the intent of the General Assembly that at least $1.0 million be transferred from the division to the corporation in fiscal 2016.

Therefore, general fund expenditures for the corporation to capitalize the Economic Development Marketing Fund increase by at least $1.0 million in fiscal 2016. Special fund revenues and special fund expenditures for staff and administrative, financial, accounting, and legal costs for the corporation increase correspondingly.

The Department of Legislative Services (DLS) notes that this amount is consistent with the original appropriation for TEDCO in fiscal 2000, which was $642,000 (or $871,000 in current dollars, after adjusting for inflation). The appropriation the following year was $2.0 million. Adjusting for inflation, this is approximately $2.6 million, in current dollars.

Assuming the corporation requires similar out-year funding to that of TEDCO, general fund expenditures to capitalize the Economic Development Marketing Fund increase by at least $2.6 million annually beginning in fiscal 2017. Special fund revenues and special fund expenditures increase correspondingly. This estimate does *not* reflect any advertising costs.

This estimate assumes that the division's general fund budget is permanently reduced to offset general fund appropriations to the Economic Development Marketing Fund for the corporation's administrative costs. Under this assumption, the cost to the State of establishing the corporation, absent advertising costs, is neutral. However, if DECC staff and associated expenditures are maintained, additional general funds are required to fund both DECC and the corporation. As DECC retains its statutory responsibility for promoting the location and creation of businesses in the State under the bill, the number of staff retained by DECC is unclear.

DLS notes that the division's general fund budget in fiscal 2016 is $2.8 million; therefore, there are sufficient resources to both maintain a portion of the division's staff and also fund the corporation's administrative expenses through the Economic Development Marketing Fund, while keeping the overall cost to the State neutral.

Finally, a large-scale television advertising campaign costs millions or tens of millions of dollars; however, the amount and extent of State funds spent on advertising by the corporation is unknown and not reflected in the above estimates.

Local Development Offices

Assuming that the intent of the bill is not to establish regional offices in *all* the local jurisdictions, this provision is currently being met through four existing local economic development offices. General fund expenditures increase to the extent that additional offices are established at the direction of the Secretary.

Small Business Effect: While the bill does not directly affect small businesses, they may benefit from the restructuring of State economic development entities and the establishment of the P3 Marketing Corporation.

Additional Information

Prior Introductions: None.

Cross File: SB 776 (The President, *et al.*) (By Request - Maryland Economic Development and Business Climate Commission) - Finance.

Information Source(s): Department of Business and Economic Development, Department of Budget and Management, Governor's Office, Maryland Technology Development Corporation, Maryland Economic Development Corporation, Office of the Attorney General, Maryland Economic Development and Business Climate Commission, Department of Legislative Services

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