

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 94

(Chair, Ways and Means Committee)(By Request -
Departmental - Commerce)

Ways and Means

Budget and Taxation

Maryland E-Nnovation Initiative Program - Requirements for Matching Funds

This departmental bill authorizes a nonprofit institution of higher education to use specified available funds in lieu of “qualified donations” to satisfy a matching requirement under the Maryland E-Nnovation Initiative Program, subject to specified conditions.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: The bill does not affect the amount of special fund expenditures by the Department of Commerce (Commerce) to provide matching funds for endowments under the E-Nnovation program. The Governor’s proposed FY 2018 budget includes \$8.5 million for the program. The bill may reallocate available funds among eligible nonprofit institutions of higher education. Specifically, smaller institutions may receive funding that they otherwise would not have. To the extent that funding is allocated to private institutions that otherwise would have been allocated to public institutions, higher education revenues (and associated expenditures) decrease as early as FY 2018. However, any reallocation cannot be predicted at this time.

Local Effect: None.

Small Business Effect: Commerce has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary: A nonprofit institution of higher education that anticipates it will not receive the entire amount of a qualified donation in order to request matching funds from the Maryland E-Nnovation Initiative Fund Authority (MEIFA), before the end of the fiscal year in which its research endowment plan is approved, may deposit other available funds for purposes of satisfying the 90-day deposit requirement. The institution may *not* use (1) educational or general fees, auxiliary fees, or other student fees generated by the institution; (2) proceeds from promissory notes, bonds, loans, or other instruments evidencing an indebtedness or any other obligation of repayment by the governing body of the institution; or (3) any other funds received from the State or federal government.

To use other available funding under the bill, which includes donations received prior to October 1, 2014, and other unrestricted funds, the institution must have disclosed the following information in the research endowment plan approved by MEIFA:

- the intent of the institution to rely on the other funds;
- the source of the other funds; and
- other information MEIFA may have requested regarding other funds at the time of its consideration of the approved research endowment plan.

Current Law:

E-Nnovation Initiative Program

Chapters 532 and 533 of 2014 established the Maryland E-Nnovation Initiative Program, the Maryland E-Nnovation Initiative Fund (MEIF), and MEIFA in what is now the Department of Commerce. MEIF receives distributions from revenues attributable to a portion of the State admissions and amusement tax and additional required appropriations totaling \$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.

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.

Qualified Donations

A private donation to a research endowment is 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; (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. Notwithstanding these three criteria, 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.

Process for Receiving Matching Funds from MEIF

An institution seeking a distribution of matching funds from MEIF must first submit a research endowment plan to MEIFA. The plan must include any information requested by MEIFA and a demonstration of interest from qualified private donors to meet the criteria established by MEIFA. The institution must then obtain qualified donations in an amount equal to the amount of matching funds being requested for distribution and must submit a request to MEIFA. The request is subject to MEIFA's review and approval. 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 into its endowment an amount of qualified donations equal to or greater than the total amount of funds allocated for distribution to the institution by MEIFA. 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.

Generally, MEIFA may make available up to 25% of cumulative program funds from MEIF to a single institution to match qualified donations; however, MEIFA may distribute additional funds to an institution that has previously received 25% of cumulative program funds if MEIFA otherwise fails to allocate the funds.

Background:

E-Nnovation Initiative Program

Fiscal 2016 was the first year in which funds were awarded under the Maryland E-Nnovation Initiative Program. MEIFA awarded \$8.3 million to support eight research endowment plans at five institutions. Johns Hopkins University (JHU); the University of Maryland, College Park (UMCP); and the University of Maryland, Baltimore (UMB) were each approved for two endowment plans. Each institution received the maximum of 25% of the available funds. Two other awards of \$1.0 million each went to Morgan State University (MSU) and Washington College. Subsequent to the award, MSU was unable to deposit the entirety of the funds anticipated from its donor within the 90-day period. As such, all funds disbursed to MSU at that point (\$750,000) were returned.

In fiscal 2017, MEIFA has made eight awards to six different institutions totaling \$8.5 million. UMB and UMCP were each awarded funds to support two endowment plans totaling \$1.9 million and \$2.1 million, respectively. The remaining institutions were awarded funds for one endowment plan each. JHU was awarded \$1.4 million, Stevenson University received \$1.2 million, and Hood College and Washington College were each awarded \$944,000. Disbursements of the awards are pending.

Matching Requirement Difficult for Small Institutions

Commerce advises that the current 90-day deposit requirement for matching donations is not a challenge for universities with large private donor bases, but smaller institutions may not be able to raise the needed funds from restricted sources within the 90-day timeframe. Smaller schools have commensurately smaller donor bases, and a donation of \$1.0 million is more likely to be achieved in stages over multiple years rather than all at once. The issue was first noted at a MEIFA meeting in June 2016, with further discussion at the September 2016 meeting. Based on feedback, MEIFA was asked to submit proposed legislation to extend the opportunity for smaller institutions to qualify for MEIF funds. The bill allows these smaller institutions to use funds from other sources in order to raise the matching funds within the required timeframe.

The Department of Legislative Services notes that current law allows all or a portion of unrestricted *gifts* or *bequests* received on or after October 1, 2014, to be considered qualified donations. Current law does not, however, allow other types of unrestricted funds to be used or funds raised before October 1, 2014. Under the bill, all unrestricted sources, except for those specifically prohibited (*e.g.*, educational fees, funds received from the State), are available for use to meet the 90-day deposit requirement to receive E-Nnovation funding. For example, MSU's estimated non-State-supported (*i.e.*, does not include tuition and fees or State appropriations) fund balance at the end of fiscal 2017 is \$36.9 million, a portion of which could be used for this purpose.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Commerce; University System of Maryland; Morgan State University; St. Mary's College of Maryland; Baltimore City Community College; Maryland Independent College and University Association; Department of Legislative Services

Fiscal Note History: First Reader - January 31, 2017
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES (SFY 2017)

TITLE OF BILL: Maryland E-Nnovation Initiative Program -Qualified donations

BILL NUMBER: HB 94

PREPARED BY: Mikra Krasniqi, Economist (Department of Commerce)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This proposal allows nonprofit institutions of higher education to deposit certain available institutional funds into its research endowment to satisfy the 90-day deposit requirement to receive funds from the program. As it stands, Maryland E-Nnovation Fund Authority awards funds to qualified institutions that can match the award with their collected donations. The current 90-day requirement is not a challenge for universities with large private donor bases-like The Johns Hopkins University or University of Maryland in Baltimore-but smaller institutions and schools may not be able to raise the needed funds from strict sources within the 90-day timeline. This proposal then allows these smaller schools to use funds from other sources in order to raise the matching-funds within the required timeframe.

In FY 2016, \$8.3 million was awarded to five universities. While these awards went to large institutions such as John Hopkins, University of Maryland in Baltimore, Morgan State University, etc., there has been a growing interest from smaller institutions to take advantage of the program. Along with the interest, however, there was concern among these institutions in their ability to collect and deposit the matching funds. The subsequent follow up and feedback with representatives of these institutions have served as a reason for the Maryland E-Nnovation Fund Authority to propose the change in legislation and provide the opportunity for smaller schools and institutions to qualify for the funds. Based on this research then, this proposal is expected to have a significant impact for these schools with small private donor bases.

There is no impact on businesses, as the program is intended to fund faculty research at universities.