

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1464
 Economic Matters

(Delegates Waldstreicher and Barkley)

Finance

Make Office Vacancies Extinct Program

This bill establishes the Make Office Vacancies Extinct (MOVE) program in the Department of Commerce (Commerce). The program provides matching grants to eligible businesses for office space support in conjunction with grants provided by comparable county programs. The MOVE Matching Fund is established as a special fund in Commerce to provide the matching grants and pay for the administrative costs of the program. Subject to the availability of money in the fund, the program may provide the same amount of funding to an eligible business as the county program on a first-come, first-served basis. The Secretary of Commerce must review and evaluate the program at least once every three years.

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$0.8 million in FY 2018, increasing to \$1.7 million by FY 2022, to provide funding for the program, as discussed below. Special fund revenues and expenditures for the MOVE Matching Fund increase correspondingly to provide matching grants to eligible businesses and pay for the program’s administrative expenses.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	\$0.8	\$1.1	\$1.1	\$1.7	\$1.7
GF Expenditure	\$0.8	\$1.1	\$1.1	\$1.7	\$1.7
SF Expenditure	\$0.8	\$1.1	\$1.1	\$1.7	\$1.7
Net Effect	(\$0.8)	(\$1.1)	(\$1.1)	(\$1.7)	(\$1.7)

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

Local Effect: To the extent that the MOVE program encourages counties to offer or expand comparable programs, local expenditures increase. Counties that offer comparable programs must coordinate with the MOVE program but can do so with any existing or

future staff assigned to the county programs. The MOVE program does not provide grant funding to counties; it provides the funding directly to eligible businesses. Therefore, local government revenues are not affected.

Small Business Effect: Meaningful. Under the bill, the MOVE program provides an equal match to a county's grant – a direct and positive impact on any small businesses that receive funding from a county program. As discussed below, the average Montgomery County grant is approximately \$26,000.

Analysis

Bill Summary: The purpose of the MOVE program is to encourage the location of new businesses in the State in counties that provide comparable office space support to the businesses. To qualify for participation in the program, a new business must:

- be located in a county that has a comparable support program to reduce office space vacancies in the county;
- be a home-based start-up enterprise occupying its first commercial space in the county, or a business relocating from outside the State or significantly expanding its operations in the county;
- execute a direct lease with the landlord for at least three years of up to 10,000 square feet, or obtain an occupancy permit if sharing office space with another business; and
- apply for support from the program within 90 days after signing the lease or obtaining the occupancy permit.

The program may exclude a business that is relocating from one county to another county within the State. A grant recipient that fails to fulfill the eligibility and maintenance requirements of the program or of the county program that supports the recipient may be required to return all or part of the grant to the program.

An applicant must submit an application for a program grant on the form that the Secretary of Commerce requires. The program must review the application and all supporting materials in order to evaluate whether the applicant qualifies for a grant from the program.

Subject to the availability of money in the MOVE Matching Fund, the program may provide to an eligible business a grant that equals the amount of the grant that the county comparable program provides to the business. The program must provide the grants on a first-come, first-served basis.

The program must coordinate with county programs to evaluate applications and to provide assistance to eligible businesses under the bill.

Make Office Vacancies Extinct Matching Fund

The MOVE Matching Fund is established as a special, nonlapsing fund in Commerce to provide the matching grants and pay for the administrative costs of the program. The fund consists of (1) money appropriated in the State budget; (2) money recaptured from businesses that fail to fulfill the terms and conditions of a grant made from the program; (3) interest earnings of the fund; and (4) and any other money from any other source accepted for the benefit of the fund. Expenditures from the fund may be made only in accordance with the State budget.

Program Reporting

At least once every three years, the Secretary of Commerce must review and evaluate the program, including the number of participating counties with comparable programs and the number and size of eligible businesses that receive support from the program. Based on the review and evaluation, the Secretary may submit recommendations to the Governor and the General Assembly on the continued effectiveness of the program and the level of matching funding that should be provided to participating counties under the program.

Current Law/Background: The MOVE program does not exist at the State level.

Montgomery County established a MOVE program in 2014, which is very similar to the program established by the bill. The [county MOVE program](#) offers a one-time grant of \$8 per square foot of leased space to eligible businesses. Unlike the proposed State program, certain types of businesses (retail establishments, restaurants, independent financial brokers or agents, and insurance producers) are not eligible for support from the county MOVE program. The MOVE program issued its first grant in May 2014, and from that time through December 2016 had issued 44 grants totaling \$1.14 million – averaging \$26,000 per grant. Of that amount, 15 grants were given for relocations, 4 of which were from within the State.

The county MOVE program is administered by two staff, although the staff have other duties outside of the program. The budget for the county MOVE program is \$500,000 in fiscal 2017, which is used solely for grants – staff are paid separately. The county's proposed fiscal 2018 budget, which will not be final until May 2017, includes \$1.25 million for grants to eligible businesses under the MOVE program and a new, similar EXPAND program (\$625,000 each). An additional \$250,000 is allocated for building owners (not tenants) to make improvements.

According to Montgomery County, the proposed EXPAND program will offer a one-time grant of \$8 per square foot for the additional space leased by companies currently operating in the county and seeking to expand. All other criteria of the MOVE program will apply to the proposed EXPAND program. The proposed EXPAND program guidelines limit existing leases to 50,000 square feet, with a minimum expansion of 1,000 square feet.

The Department of Legislative Services (DLS) and the Maryland Association of Counties are unaware of a comparable county program other than Montgomery County's programs at this time. There is a program administered and funded by the Downtown Partnership of Baltimore that provides \$10,000 to technology companies that locate downtown. However, as the program is not administered or funded by the Baltimore City government, it likely does not qualify as a "county comparable program."

State Fiscal Effect: Subject to the availability of State funding, the State MOVE program provides the same amount of funding to an eligible business as a county program. As noted above, the Montgomery County MOVE program and the proposed EXPAND program are the only comparable county programs of which DLS is currently aware.

Eligibility criteria for Montgomery County's programs and the State MOVE program differ slightly. For example, a business can qualify for the county MOVE program if it relocates from elsewhere in the State; under the State MOVE program, that business is not eligible. Similarly, under the county's proposed EXPAND program, a business with a 30,000 square foot lease can sign a new lease for 40,000 square feet and be eligible for a grant on the difference of 10,000 square feet; under the State MOVE program, that business is not eligible (the lease can be for no more than 10,000 square feet).

DLS notes that Montgomery County's proposed fiscal 2018 budget for the MOVE and EXPAND programs was not available for inclusion in the first reader version of this fiscal and policy note. However, assuming that the county's proposed fiscal 2018 budget of \$1.25 million is adopted and maintained annually thereafter *and* that 90% of the county's MOVE awardees and 70% of the county's EXPAND awardees are eligible for and receive a State match, the State MOVE program provides \$750,000 in fiscal 2018, which reflects the bill's October 1, 2017 effective date, and \$1.0 million annually thereafter to eligible businesses in Montgomery County.

For purposes of this estimate, it is assumed that the bill encourages new county programs beginning in fiscal 2021 and that the State MOVE program provides an additional \$500,000 annually to those programs. Actual expenditures to provide matching grants will vary from this estimate to the extent that Montgomery County further alters the amount of funding for its programs, a different proportion of businesses is eligible for the State MOVE program, and/or other county programs exist or are established.

Under these assumptions, Commerce requires one staff to initially administer the State MOVE program and anticipates the need for an additional staff beginning in fiscal 2021, concurrent with an increase in program demand. Absent another revenue source, it is assumed that general funds are provided to the MOVE Matching Fund to pay for the program.

Therefore, general fund expenditures increase by \$822,128 in fiscal 2018, which accounts for the bill's October 1, 2017 effective date, to provide funding for matching grants to eligible businesses and the program's administrative expenses. This estimate reflects the cost of hiring one program administrator and providing a prorated amount of matching grants. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$67,019
Matching Grants	750,000
Other Operating Expenses	<u>5,109</u>
Total FY 2018 State Expenditures	\$822,128

General fund expenditures of \$1.1 million annually in fiscal 2019 and 2020 reflect a full salary with annual increases, employee turnover, ongoing operating expenses, and funding for \$1.0 million in matching grants each year.

Assuming that the bill encourages additional or enhanced county programs, general fund expenditures increase by \$1.7 million annually beginning in fiscal 2021, which reflects \$1.5 million in matching grants each year and the added cost of one additional staff necessary to meet the assumed increase in program demand.

Although it is possible that a county may reduce local funding for an existing program due to the availability of State funding, it is more likely that a county will maintain or increase its funding to provide an added incentive for a new business to lease office space in the county.

Special fund revenues and expenditures for the MOVE Matching Fund increase correspondingly to provide the grants to eligible businesses and pay for program's administrative expenses, as authorized by the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Commerce; Montgomery County; Maryland Association of Counties; Department of Legislative Services

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