

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 67

(Chair, Finance Committee)(By Request - Departmental -
Commerce)

Finance

Economic Matters

Department of Commerce - Maryland Economic Development Assistance
Authority and Fund - Renaming and Revising

This departmental bill renames the Maryland Economic Development Assistance Authority and Fund (MEDAAF) to be the Advantage Maryland Fund Authority and Fund (authority) and alters aspects of financial assistance that may be provided by the authority. Additional information related to the financial assistance provided by the authority must be included in its annual report to the Governor and the General Assembly. **The bill takes effect July 1, 2018, and specified provisions related to financial assistance terminate June 30, 2023.**

Fiscal Summary

State Effect: The bill does not materially affect State finances or operations.

Local Effect: The impact may be significant for individual local governments that receive financial assistance from the authority.

Small Business Effect: The Department of Commerce (Commerce) has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill).

Analysis

Bill Summary: In addition to renaming MEDAAF to Advantage Maryland, the bill makes several substantive changes:

- The maximum amount that may be provided as a grant to individuals, private businesses, nonprofits, or the Maryland Economic Development Corporation (MEDCO) for a local economic development opportunity is increased from \$2.0 million to \$5.0 million, which aligns with the existing limits for other types of financial assistance. This change terminates June 30, 2023.
- The maximum amount of financial assistance (grant, loan, or investment) that may be provided to a local government or MEDCO to *finance* a project is increased from \$3.0 million to \$5.0 million. This change terminates June 30, 2023.
- The definition of working capital is altered to remove accounts receivable, inventory, and investments. Restrictions on the types of projects for which assistance may be provided for working capital are repealed. The term of a loan from the fund for working capital is increased from three years to seven years. Assistance for working capital is limited to \$3.0 million. Currently, assistance for working capital is only subject to the overall limit for funding provided by the authority; \$10 million or 20% of the fund balance, whichever is less.
- Specified requirements related to lower interest loans provided by the authority are repealed, meaning that loans must have an interest rate of at least 3% except for a project located in an area of high unemployment or if Commerce determines it is a compelling economic development initiative. Subject to these and any other restrictions, the authority may determine the interest rates of loans as it considers appropriate.

Current Law:

Use of Program Funds

Generally, financial assistance from the program may be used only to finance eligible incurred costs, including for (1) construction or acquisition of a building or real property, and associated development and carrying costs; (2) construction, acquisition, or installation of equipment, furnishings, fixtures, leasehold improvements, site improvements, or infrastructure improvements, and associated development and carrying costs; or (3) working capital for significant strategic economic development opportunities, arts and entertainment enterprises, or arts and entertainment projects.

Terms of Financial Assistance

Typically, financial assistance to individuals, businesses, nonprofits, and MEDCO for a local economic development opportunity is limited to \$5.0 million for loans and investments and \$2.0 million for grants. However, for a significant strategic economic development opportunity, Commerce or the authority may provide a loan from the fund of up to \$10 million to those same recipients. Local governments and MEDCO may receive up to \$3.0 million in the form of a grant, loan, or investment to *finance* a project.

However, *any* financial assistance provided, including for working capital when allowable, can be no more than \$10 million, or 20% of the fund balance, whichever is less. Generally, financial assistance from the program may not exceed 70% of the total costs of the project being financed.

Loans from the fund are subject to numerous specified conditions related to the interest rates they may bear, such as:

- a loan from the fund must bear an interest rate below the market rate of interest, as determined by Commerce, if the loan is for a significant strategic economic development opportunity or a specialized economic development opportunity; and
- a loan from the fund may not bear an interest rate of less than 3% *unless* the project funded by the loan is located in an area of high unemployment or Commerce determines that the borrower is carrying out a compelling economic development initiative.

Generally, the term of a loan from the program must be (1) for working capital, 3 years or less; (2) for financing equipment, furnishings, or fixtures, the lesser of 15 years or the useful life of the asset, as determined by Commerce; (3) for financing the construction or acquisition of buildings and real property, 25 years or less; and (4) for financing the redevelopment of a qualified brownfields site or a qualified distressed county project, a term approved by Commerce or the authority. Subject to these and any other restrictions, the authority may determine the interest rates of loans as it considers appropriate.

Background: MEDAAF is the principal finance and incentive program for Commerce. The authority provides below-market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses. Businesses, in particular those in growth industries that are locating or expanding in priority funding areas, are targeted. MEDAAF's fiscal 2019 opening and closing fund balances are estimated to be \$16.1 million and \$1.5 million, respectively.

Commerce advises that the changes to working capital are designed to increase the financial assistance available for small businesses and address a funding gap between early stage equity and subsequent debt financing. A more detailed discussion can be found in the department's attached small business impact statement. (The attached assessment does not reflect amendments to the bill.)

State Fiscal Effect: While the bill alters the maximum permissible amounts and conditions for certain types of financial assistance, total revenues and expenditures for the Advantage Maryland Fund are not materially affected. However, the changes may alter the number and type of projects that receive funding and the amounts and the structure of the assistance. The impact is more likely through fiscal 2023, prior to the termination of provisions that increase the maximum amount of financial assistance for local economic development opportunities. Commerce can implement the bill with existing budgeted resources.

Local Fiscal Effect: The bill increases the maximum amount of financial assistance (grant, loan, or investment) that may be provided to a local government to finance a project from \$3.0 million to \$5.0 million through fiscal 2023. Local government revenues and expenditures may increase if they receive additional financial assistance from the authority to finance projects due to this increase. Further, local governments are subject to the same potential outcomes as all other funding recipients, namely the potential for changes to the number and type of projects that receive funding, the amounts, and the structure of the assistance. The effect on any particular local government cannot be estimated, but may be significant.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Commerce; Department of Legislative Services

Fiscal Note History: First Reader - January 16, 2018
nb/rhh Third Reader - March 19, 2018
Revised - Amendment(s) - March 19, 2018
Revised - Clarification - March 19, 2018

Analysis by: Stephen M. Ross

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES (FY 2018)

TITLE OF BILL: Maryland Economic Development Assistance Authority and Fund (MEDAAF) – Renaming and Restructuring

BILL NUMBER: SB 67

PREPARED BY: Nancy McCrea and Mikra Krasniqi (Department of Commerce)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

X WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The objective of this legislative proposal is fourfold: a) to change the name of the program from MEDAAF to the Advantage Maryland Fund; b) to increase the maximum forgivable loan amount from \$2 million to \$5 million; c) to restructure underwriting and criteria; and d) to allow working capital as reimbursable costs to assist small business in industries such as bio cyber technology. The proposal focuses on Commerce’s core mission “to create, attract, retain, and expand commercial and industrial business resulting in significant employment and private investment.”

As interest rates have lowered since the creation of the MEDAAF program in 1999, Small Business Administration (SBA) loan amounts have increased from \$2 million to \$5 million and the guarantee amount from \$750,000 to \$3.75 million. MEDAAF has not, so far, adjusted itself to these changing economic and financial conditions. This proposal aims to change that by focusing on restructuring its criteria and increase the maximum forgivable loan amount.

The most significant impact on small business from this proposal would be to allow financing for working capital, which is the most immediate financing need of small business. Young companies continuously face the gap between early stage equity and debt financing that hinders them from moving to the next step in growing their business. This especially true in the arena of small and pre-revenue businesses such as bio and cyber technology.

The proposal addresses these shortcomings by streamlining the process, removing restrictions on capital, and allowing for greater funding flexibility and faster response, which is important for startups and young/ small businesses. In this manner, Advantage Maryland is a program that is

best positioned to assist small and young firms that are crucial to job growth. Given the above reasons, the new program is expected to have a significant positive impact on Maryland small businesses.

One particular initiative that will benefit from the proposed MEDAAF changes is the Excel Maryland, a statewide economic development program with a focus on creating opportunities for growth in sciences and cybersecurity industry in the State. The core strength of these industries is human capital and R&D; qualifying working capital as eligible project cost in the MEDAAF would build on the structure of Excel Maryland to help these companies with working capital.

MEDAAF is crucial to job creation and small businesses. Since its inception in 1999, the program has invested over \$257 million in about 548 transactions, which has contributed to creating and retaining over 66,000 jobs, \$4.6 billion in capital investment in private sector, and a direct return to State of about \$11 for every \$1 invested in the program. The average MEDAAF transaction is \$469,000. The program's leverage ratio of 30 jobs for every \$100,000 of MEDAAF would help turn small firms into large employers. It's also important to note that of 19 companies that received funding under MEDAAF-2 in FY 2016, one-third to one-half could be considered small businesses. The recipients include nine manufacturers, a cyber company, a pharmaceutical manufacturer, and a solar company. This suggests that there is more opportunity and potential to reach more small businesses.