

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 Third Reader

Senate Bill 473

(Senators Edwards and Corderman)

Budget and Taxation

Ways and Means

Economic Development - Maryland E-Nnovation Initiative Program - Qualifying Donations

This bill lowers the minimum threshold – to \$200,000 – for a qualified donation or pledge made to a research endowment of a nonprofit institution of higher education (NPIHE) that has an annual unrestricted current funds budget of less than \$250.0 million for purposes of the Maryland E-Nnovation Initiative (MEI) Program. In addition, the donation may be bundled with other qualified donations to meet the \$200,000 threshold. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: Higher education revenues and expenditures may decrease by \$55,500 in FY 2023, with ongoing decreases, to accommodate increased administrative costs within the Department of Commerce, as discussed below. The impact reflected in FY 2027 assumes funding is maintained for the program after FY 2026, even though the mandated appropriation under current law ends in FY 2026.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Higher Ed Rev.	(\$55,500)	(\$50,500)	(\$52,000)	(\$53,300)	(\$54,800)
Higher Ed Exp.	(\$55,500)	(\$50,500)	(\$52,000)	(\$53,300)	(\$54,800)
Net Effect	\$0	\$0	\$0	\$0	\$0

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

Local Effect: While local community colleges are eligible for grants through the MEI Program, local community college finances are likely not materially affected by the bill.

Small Business Effect: None.

Analysis

Current Law:

E-Nnovation Initiative Program

Chapters 532 and 533 of 2014 established the MEI Program, the Maryland E-Nnovation Initiative Fund (MEIF), and MEIF Authority in Commerce. MEIF receives distributions from revenues attributable to a portion of the State admissions and amusement tax; appropriations totaling \$8.5 million annually are required from fiscal 2016 through 2026.

Subject to specified eligibility requirements, NPIHEs in the State may create research endowments and, upon securing matching private donations, MEIF monies may be distributed to the endowments. Within the MEI Program, an NPIHE may be a public or a private NPIHE, so long as it is located in Maryland, receives State funds in the annual operating budget, and generally limits enrollment to graduates of secondary schools and awards degrees at either the associate, baccalaureate, or graduate level. Private donations to a research endowment are considered a qualified donation if the donation is restricted by the donor for eligible uses under the program and is a minimum of \$500,000, which may be bundled with other qualified donations to meet the \$500,000 threshold. 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 Acts and as determined by the MEIF Authority.

State Fiscal Effect: Commerce administers the MEI Program and may use MEIF to pay for its associated costs. The department notes the program is currently understaffed with one Director of Education and Workforce responsible for the program. Commerce expects applications to increase as a result of lowering the minimum donation threshold. Thus, administrative costs for the MEI Program increase by \$92,576 in fiscal 2023 to hire an additional employee to assist existing staff under the expanded program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. These administrative costs remain an allowable use of MEIF. The increased administrative costs for Commerce reduce the amount of grants available to NPIHEs by a corresponding amount, so the net effect is no change in special fund expenditures by Commerce.

Position	1.0
Salaries and Fringe Benefits	\$84,968
Operating Expenses	7,608
Grants to NPIHEs	<u>(92,576)</u>
Total FY 2023 MEIF Expenditures	\$0

Future year administrative expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses, which are offset by corresponding changes in grant funding.

Higher Education Funding

Grants to NPIHEs decrease by \$92,576 in fiscal 2023 as a result of increased administrative costs of the MEI Program. Thus, less grant funding may be available to public four-year institutions of higher education and Baltimore City Community College, a State institution. Based on recent existing awards, if 60% of MEIF grants are allocated to public institutions of higher education, higher education revenues and expenditures may decrease by \$55,546 in fiscal 2023, with future years reflecting 60% of the ongoing additional administrative costs funded by MEIF.

The bill lowers the minimum donation threshold for NPIHEs with an annual unrestricted current funds budget of less than \$250.0 million. Thus, the bill may shift funding from large institutions to smaller institutions. For example, 6 of the 11 University System of Maryland institutions have unrestricted current funds budget of less than \$250.0 million. The Department of Legislative Services assumes that, while the bill may alter which institutions receive grants, the allocation of grants to private NPIHEs and public NPIHEs remains constant. However, if more private NPIHEs receive grants under the bill, higher education revenues and expenditures may decrease further.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 730 (Delegate Buckel) - Ways and Means.

Information Source(s): Department of Commerce; Maryland Independent College and University Association; Department of Legislative Services

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