

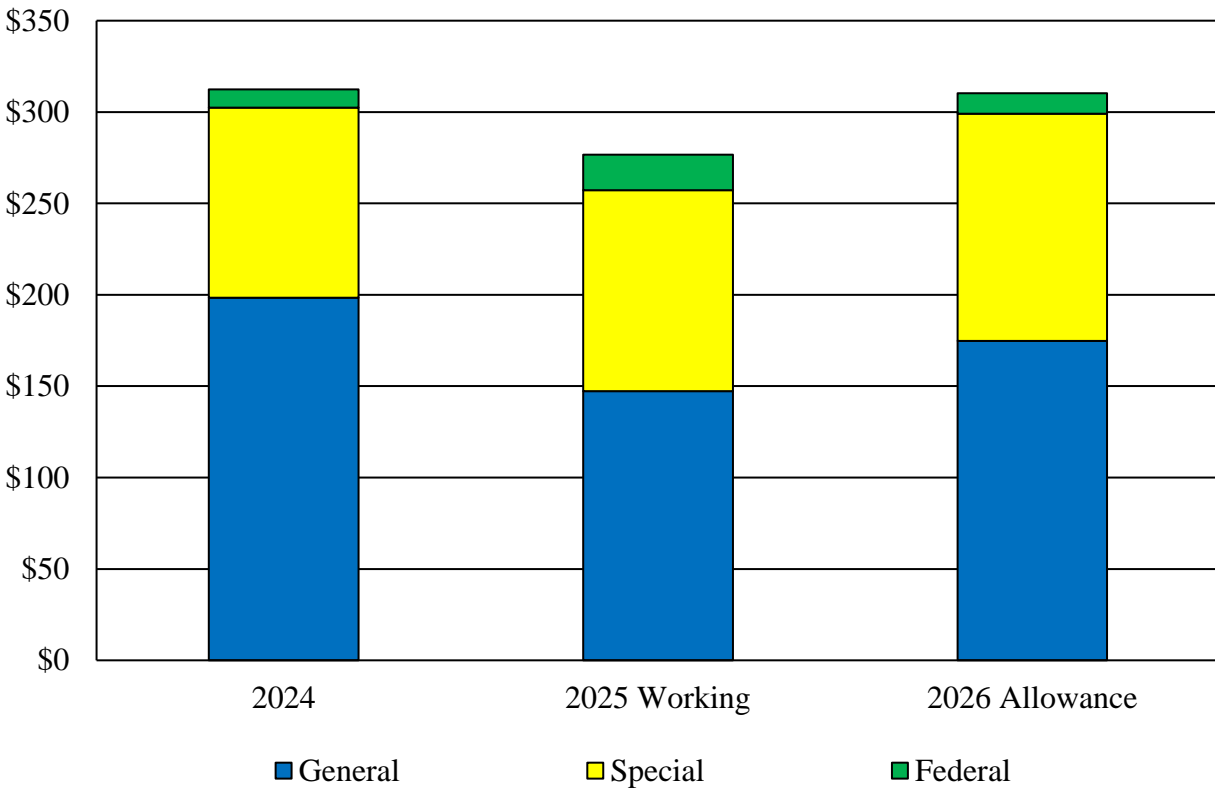
T00
Department of Commerce

Executive Summary

The mission of the Department of Commerce (Commerce) is to strengthen the Maryland economy. Commerce 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.

Operating Budget Summary

Fiscal 2026 Budget Increases \$33.6 Million, or 12.1%, to \$310.3 Million
(\$ in Millions)



Note: Numbers may not sum due to rounding. The fiscal 2025 working appropriation accounts for deficiencies. The fiscal 2026 allowance accounts for contingent reductions. The fiscal 2025 impacts of statewide salary adjustments are centrally budgeted in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2026 impacts of the fiscal 2025 statewide salary adjustments appear in this agency’s budget. The fiscal 2026 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

For further information contact: Elizabeth Waibel

elizabeth.waibel@mlis.state.md.us

Key Observations

- ***Program Changes Proposed:*** As part of the Governor’s proposed economic agenda, SB 427/HB 498 (the DECADE Act) includes a number of changes to Commerce programs including renaming the Small, Minority, and Women-Owned Businesses Account (SMWOBA), moving the Regional Institution Strategic Enterprise (RISE) Zone program out of Commerce, and sunsetting the Maryland Economic Adjustment Fund (MEAF). The fiscal 2026 allowance includes \$25 million in the Economic Development Opportunities Fund (Sunny Day Fund), which the Governor has proposed renaming the Strategic Closing Fund to focus on business attraction, relocation, and expansion.
- ***More Jobs for Marylanders Tax Credit:*** Enrollment for new businesses to enter the program closed May 31, 2024. The budget for the program’s reserve fund continues to increase with the fiscal 2026 allowance, and program activity is expected to continue to expand in future years. The Budget Reconciliation and Financing Act (BRFA) of 2025 includes provisions that authorize a \$4.3 million transfer from the reserve fund to the General Fund and require that excess funds above the amount of tax credits to be claimed will be transferred to the General Fund on an annual basis.
- ***SMWOBA:*** Dedicated tax revenues for the loan program have resulted in a \$12 million unencumbered fund balance.

Operating Budget Recommended Actions

	<u>Funds</u>
1. Reduce the general fund appropriation for out-of-state/routine operations travel in the Office of the Managing Director of Business and Industry by \$457,241 to the fiscal 2024 actual expenditures level.	-\$ 457,241
2. Delete grant funding to Ignite Capital.	-\$ 1,000,000
3. Reduce funding for the Industry 4.0 program to the mandated funding level of \$1 million.	-\$ 5,000,000
4. Reduce grant funding to the Maryland Tech Council for the BioHub Maryland Initiative to the fiscal 2025 funding level of \$500,000.	-\$ 1,500,000
5. Reduce funding for the Build Our Future Grant Pilot Program by \$3 million to the fiscal 2025 working appropriation level of \$7 million.	-\$ 3,000,000

T00 – Department of Commerce

	<u>Funds</u>
6. Reduce funding for the Regional Institution Strategic Enterprise Zone business rental assistance program due to an available fund balance and the underutilization of the program.	-\$ 750,000
7. Reduce funding for the Maryland New Start Microloan Program due to an available fund balance.	-\$ 300,000
8. Reduce funding for the Tourism Development Board to the mandated funding level of \$6 million.	-\$ 6,366,600
9. Strike language making a reduction in funding for the Maryland State Arts Council (MSAC) contingent on legislation that eliminates the MSAC general fund mandate.	
10. Reduce Maryland State Arts Council base funding to the fiscal 2025 working appropriation level.	-\$ 437,220
11. Make funding for the Economic Development Opportunities Program Account contingent on proposed legislation to rename the account and establish it within the Department of Commerce.	
12. Reduce funding for the Economic Development Opportunities Program Account.	-\$ 15,000,000
Total Net Change	-\$ 33,811,061

Budget Reconciliation and Financing Act Recommended Actions

1. Add a provision limiting the total value of tax credits per year under the Film Production Activity Tax Credit to \$12 million in fiscal 2026.

T00
Department of Commerce
Operating Budget Analysis

Program Description

Commerce’s primary goals are to increase business investment in Maryland, enhance business success and the competitiveness of businesses in their distinct markets, develop a diverse economic base, and ensure that all jurisdictions share in the State’s economic vitality. The department underwent a reorganization in response to an executive order in December 2024 directing Commerce to create a Governor’s Office of Business Advancement to provide support to employers seeking to locate or expand in Maryland. The department separated its existing division of Business and Industry Sector Development into the Division of Innovation and Growth, and the Division of Business Attraction and Special Projects, although this reorganization is not yet reflected in the budget. As shown in the budget, the department has three major divisions:

- ***Business and Industry Sector 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 houses Commerce’s business assistance programs, including the Maryland Economic Development Assistance Authority and Fund (MEDAAF), the Maryland Small Business Development Financing Authority (MSBDF), SMWOBA, and the Sunny Day Fund. This division also includes the offices of Strategic Industries, International Investment and Trade, and Military and Federal Affairs. The division also administers several tax credit programs, three of which are budgeted within the department’s appropriation: the More Jobs for Marylanders; Biotechnology Investment Incentive; and Innovation Investment Incentive programs.

- ***Marketing, Tourism, 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. The division includes the offices of Marketing and Communications, Tourism Development, and the Maryland State Arts Council (MSAC).

- ***Administration and Technology:*** This division includes the offices of Budget and Finance, Contracts and Procurement, General Services, Human Resources, and Information and Technology Management.

Fiscal 2025

Cost Containment

In July 2024, the Board of Public Works (BPW) approved cost containment actions that reduced funding for two programs in Commerce.

- the RISE Zone Program decreased from \$750,000 to \$562,500, as the program is underutilized (discussed further in Issue 1).
- MSAC funding decreased by \$437,220, and that lower amount was used to calculate mandated funding in fiscal 2026.

Implementation of Legislative Priorities

Section 21 of the fiscal 2025 Budget Bill added \$2.3 million in general funds for grants to various organizations. All of the following grants have been distributed:

- \$500,000 for the Maryland Tech Council for the BioHub Maryland Initiative;
- \$500,000 for the Baltimore Symphony Orchestra;
- \$400,000 for the Hippodrome Foundation;
- \$200,000 for the Chesapeake Shakespeare Company to support the Shakespeare Beyond initiative;
- \$190,000 for the BlackRock Center for the Arts;
- \$100,000 for Your Public Radio Corporation; and
- \$35,000 for the Prince George’s Cultural Arts Foundation to support the 2024 Lake Arbor Jazz Festival.

One additional grant, \$400,000 for the Local Initiatives Support Corporation to support the Blue Line Corridor Coalition, had not been distributed at the time of writing, but Commerce reported that a grant agreement had been signed, and the first of three planned disbursements of funds was being processed.

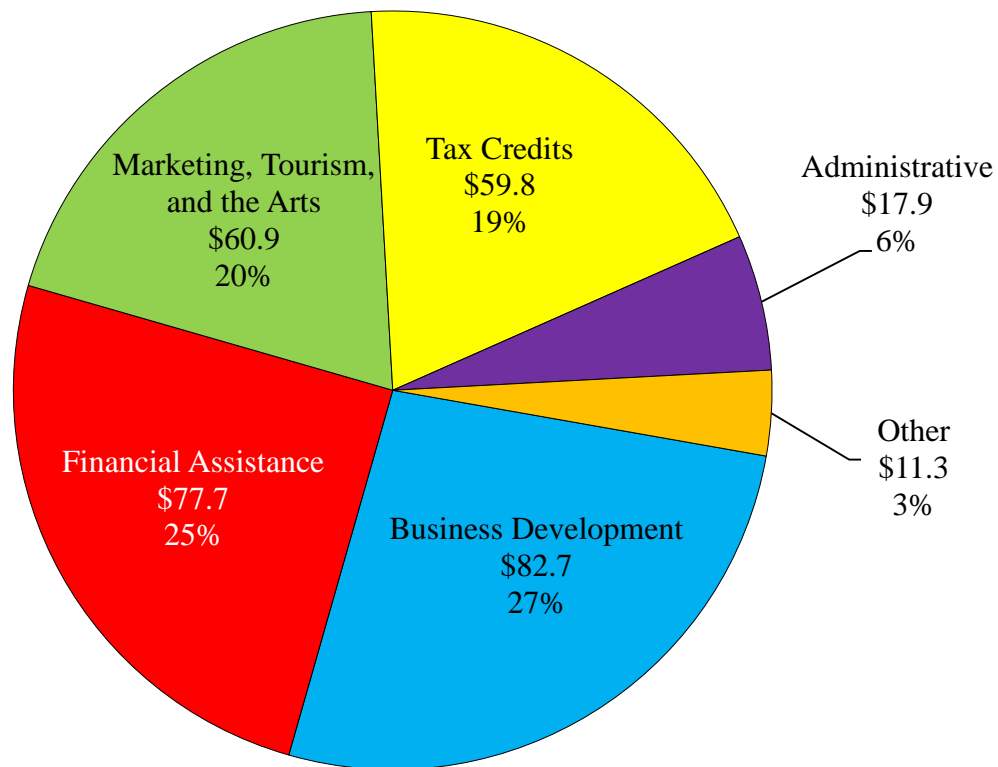
Proposed Deficiency

The proposed budget includes a fiscal 2025 deficiency appropriation of \$338,000 to support economic development consulting costs through the Maryland Economic Development Corporation (MEDCO).

Fiscal 2026 Overview of Agency Spending

Commerce’s fiscal 2026 allowance totals \$310 million. As shown in **Exhibit 1**, the majority of the allowance goes to business development, financial assistance, and tax credits to encourage business attraction, retention, and growth in the State. Commerce also administers a number of grant programs for the arts and oversees tourism and business marketing strategy for the State. The fiscal 2026 allowance includes a \$119,451 reduction in funding for MSAC contingent on the enactment of a BRFA provision eliminating the general funding mandate for MSAC.

Exhibit 1
Overview of Agency Spending
Fiscal 2026 Allowance
(\$ in Millions)



Source: Governor’s Fiscal 2026 Budget Books

Note: The fiscal 2026 allowance accounts for contingent reductions. The fiscal 2026 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Financial Assistance and Tax Credits

Financial assistance programs receiving funding in the fiscal 2026 allowance include the MSBDFA business assistance program (\$13.6 million), MEDAAF (\$17.5 million), and SMWOBA (\$20.8 million). The Build Our Future program receives \$10.0 million in mandated funding, a \$3.0 million increase from fiscal 2025, when \$4.0 million from Build Our Future was reallocated to the Industry 4.0 grant program. An additional \$1 million in the program’s fund balance is expected to be added in a forthcoming budget amendment, bringing the fiscal 2025 working appropriation to \$7.0 million.

Commerce administers tax credit programs designed to encourage business investment in the State. The More Jobs for Marylanders Tax Credit Reserve Fund receives \$47.8 million in the fiscal 2026 allowance. This amount is based on estimates of future tax credits to be claimed under the program. The Biotechnology Investment Tax Credit Reserve Fund receives \$12.0 million.

Maryland Tourism Development Board

The Tourism Development Board promotes Maryland as a tourist destination and provides grants and support to local tourism organizations around the State. As shown in **Exhibit 2**, Commerce reported that the Maryland tourism website, VisitMaryland.org, received 3.2 million unique visitors in fiscal 2024, an increase from 2.6 million the prior year. The number of advertising-generated inquiries decreased from 109,000 in fiscal 2023 to about 21,000 in fiscal 2024. The estimated number of jobs generated by tourism increased from 256,000 to 263,000 over the same time period.

Exhibit 2 Tourism Outreach Metrics Fiscal 2020-2024

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Unique Tourism Website Users	2,749,653	3,326,249	2,766,734	2,580,725	3,204,547
Total Advertising-generated Inquiries	313,420	297,339	119,894	109,293	20,628
Travel Media Exposure Advertising Value (\$ in Millions)	\$18.2	\$14.9	\$66.7	\$108.1	\$55.0
Welcome Center Visitors	200,407	76,075	199,247	248,034	220,035
Literature Distribution	457,920	277,313	384,497	339,504	290,737

Source: Department of Budget and Management; Department of Commerce

T00 – Department of Commerce

The board receives \$12.4 million in general funds in the fiscal 2026 allowance, level with the fiscal 2025 working appropriation, and \$6.4 million above the mandated appropriation level of \$6.0 million. About half of the fiscal 2026 allowance, \$6.2 million, goes to grants to nongovernmental entities, \$3.9 million goes to advertising, and \$1.6 million goes to contractual services. **Due to the State’s fiscal constraints, the Department of Legislative Services (DLS) recommends reducing funding for the Tourism Development Board by \$6.4 million to the mandated funding level of \$6 million.**

Child Care Capital Support Revolving Loan Fund

The fund, established by Chapter 466 of 2022, provides no-interest loans for capital expenses related to child care facilities. Child care providers must repay loans from the fund within five years, and program eligibility is limited to providers who participate in the Maryland State Department of Education’s (MSDE) Child Care Scholarship Program. As of September 2024, the fund had a balance of \$7.2 million, and \$7.8 million in special funds is budgeted for the program in both fiscal 2025 and 2026, using the existing fund balance. In addition, \$2.2 million is budgeted in the Dedicated Purpose Account (DPA) for the fund.

The DECADE Act includes a provision that would allow up to \$50,000 of a loan provided from the fund to be converted to a grant under certain conditions. It would also require the department to prioritize applicants that will increase child care capacity in areas lacking child care and that serve primarily eligible neighborhoods under the ENOUGH Act but would also allow for temporarily altering the prioritization of applicants to meet the needs of the child care industry.

Maryland New Start Microloan Program

Chapter 485 of 2022 established the Maryland New Start Microloan Program to provide interest-free loans of up to \$50,000 for formerly or currently incarcerated individuals starting small businesses. Applicants must be referred to the Microloan program by a qualified entrepreneurship development program, as determined by the Maryland Department of Labor’s New Start Grant Program; currently, only one entrepreneurship program is currently qualified. The Governor is required to provide an appropriation of \$300,000 to be deposited into a special fund for the Microloan Program annually for fiscal 2024 through 2028. Consistent with that mandate, the fiscal 2026 allowance includes \$300,000 in general funds for the program.

Commerce reports that the program received only one application in fiscal 2024, its first year of funding, and has four applications under review as of February 2025. The program has a current fund balance of \$510,675. **Given the availability of special funds in the Maryland New Start Microloan Program Fund, DLS recommends reducing the general fund appropriation by \$300,000 and authorizing a budget amendment to replace this appropriation with special funds from the existing fund balance.**

Proposed Budget Change

As shown in **Exhibit 3**, the fiscal 2026 allowance of Commerce increases by \$33.6 million (12%) compared to the fiscal 2025 working appropriation after accounting for a proposed deficiency appropriation and contingent reduction. The largest areas of growth are in funding for the Sunny Day Fund in the DPA, the More Jobs for Marylanders Tax Credit Reserve Fund, and business development grants including the Industry 4.0 program, BioHub Maryland, and Ignite Capital.

**Exhibit 3
Proposed Budget
Department of Commerce
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Total</u>
Fiscal 2024 Actual	\$198,492	\$103,938	\$10,023	\$312,453
Fiscal 2025 Working Appropriation	147,267	110,044	19,385	276,696
Fiscal 2026 Allowance	<u>174,846</u>	<u>124,303</u>	<u>11,105</u>	<u>310,255</u>
Fiscal 2025-2026 Amount Change	\$27,580	\$14,260	-\$8,280	\$33,559
Fiscal 2025-2026 Percent Change	18.7%	13.0%	-42.7%	12.1%

Where It Goes: **Change**

Personnel Expenses

Salary increases and associated fringe benefits, including fiscal 2025 COLA and increments	\$1,733
Costs associated with 4 contractual conversions.....	396
Turnover expectancy decreases from 6.13% to 5.62%	143
Workers’ compensation premium assessment	-6
Employee and retiree health insurance premiums.....	-372

Program Expenses

Sunny Day Fund.....	25,000
More Jobs for Marylanders Tax Credit Reserve Fund.....	10,300
Build Our Future Grant Program	3,000
Industry 4.0 Technology Grant Program.....	1,000
Grant to the Maryland Tech Council for the BioHub Maryland Initiative	1,500
Grant to Ignite Capital.....	1,000
Small, Minority, and Women-Owned Businesses Account.....	866
Maryland State Arts Council, including \$119,451 contingent reduction.....	318
RISE Zone program	188
Reduction in mandated funding for the Baltimore Symphony Orchestra.....	-200
Rural Broadband Assistance Fund	-500

T00 – Department of Commerce

Where It Goes:	<u>Change</u>
Innovation Investment Incentive Tax Credit program sunset	-2,000
One-time grants for legislative priorities	-1,825
Federal funding for MSBDFA	-8,300
Other grants	1,268
Administrative Expenses	
Travel expenses	460
Cost allocations	140
Contractual employee expenses associated with 4 contractual conversions	-325
Fiscal 2025 deficiency funding for consulting services on proposed Blue Line corridor development	-338
Other operational expenses	114
Total	\$33,559

COLA: cost-of-living adjustment
MSBDFA: Maryland Small Business Development Financing Authority
RISE: Regional Institution Strategic Enterprise

Note: Numbers may not sum to total due to rounding. The fiscal 2025 working appropriation accounts for deficiencies. The fiscal 2026 allowance accounts for contingent reductions. The fiscal 2025 impacts of statewide salary adjustments are centrally budgeted in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2026 impacts of the fiscal 2025 statewide salary adjustments appear in this agency’s budget. The fiscal 2026 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

Budget Reconciliation and Financing Act

The BRFA includes several provisions relating to programs in Commerce.

- **MSAC:** Under current law, MSAC’s annual funding must include general funds equal to the prior year’s funding plus a general fund growth adjustment. The BRFA provision would repeal the mandated formula funding for MSAC. The actual impact of the change is uncertain, as there would be no required general fund support. This provision would not affect the \$1.0 million in mandated special funds that MSAC receives from the State admissions and amusement tax. MSAC receives \$29.1 million in general funds in the fiscal 2026 allowance, with \$119,451 reduced contingent on the enactment of legislation eliminating the mandate. **DLS recommends deleting the contingent language and directly reducing the allowance by \$437,220 to the same level as fiscal 2025 base funding after accounting for funding for legislative priorities that is not included in the funding formula.**

- ***Maryland Innovation Investment Tax Credit (IITC) Reserve Fund:*** Authorizes the transfer of up to \$6 million from the reserve fund to the General Fund in fiscal 2025. However, the fund balance is currently less than \$1.4 million. The IITC program sunsets after fiscal 2025.
- ***Enterprise Zone Tax Credit:*** Phases out the tax credit by prohibiting new properties from qualifying or being awarded tax credits after fiscal 2025. Commerce administers the program, which provides property and State income tax credits for businesses located in qualifying areas. However, funds for the tax credit are budgeted within the State Department of Assessments and Taxation. Further discussion of the program can be found in the analysis for E50C – State Department of Assessments and Taxation.
- ***More Jobs for Marylanders:*** Authorizes the transfer of up to \$4.3 million from the More Jobs for Marylanders Tax Credit Reserve Fund to the General Fund in fiscal 2025 and provides that excess funds shall revert to the General Fund each year. This program is discussed in greater detail in Issue 2.
- ***Maryland E-Innovation Initiative Fund:*** Caps the amount of admissions and amusement tax revenue received by the fund at \$8.5 million each year and directs the rest of what the fund would receive to the General Fund. The fund currently receives 20% of State admissions and amusement tax revenue, and if that 20% is less than \$8.5 million, the Governor must add funds to make up the difference. The fund has been budgeted at the mandated minimum level of \$8.5 million in recent years but has received more than \$11.0 million annually; it has a current balance of \$14.4 million. Fiscal 2026 is the last year of mandated funding for the program, but it will continue to receive admissions and amusement tax revenue.

Infrastructure Investment and Jobs Act and Inflation Reduction Act Funding

Commerce received a competitive grant award of \$1.0 million for the Office of Strategic Industries and Entrepreneurship (OSIE) under the Infrastructure Investment and Jobs Act. The funding was added to the fiscal 2025 appropriation through a budget amendment and will be used for training and grants to implement smart manufacturing technology.

Sunny Day Fund

The largest change in fiscal 2026 is \$25.0 million in proposed funding in the DPA for the Sunny Day Fund. The DECADE Act proposes renaming the account to the Strategic Closing Account and establishing it within Commerce rather than the State Reserve Fund. The legislation would also remove the requirement that a recipient of assistance from the fund invest in capital at a level equal to five times the value of the incentive offered. Although the legislation does not alter the allowable uses of the fund, according to the Governor’s Budget Highlights, the intent is to use the fund for business attraction rather than business retention. The Sunny Day Fund has a current

balance of \$1.8 million, and additional funds are typically transferred as needed once an incentive package has been finalized. The proposed changes to the fund do not prevent funds from being added as needed, as has been the practice in the past. **Considering the State’s budget constraints and that no project has yet been identified that would require the funding, DLS recommends reducing the appropriation by \$15 million. DLS also recommends making the remaining \$10 million appropriation contingent on the enactment of legislation renaming the fund and establishing it in Commerce.**

Other Programs

The Industry 4.0 Technology Grant Program, sometimes referred to as Manufacturing 4.0, was established by Chapter 498 of 2023, with mandated funding of \$1.0 million per year for fiscal 2025 through 2028. The program provides grants to small and mid-sized manufacturers to invest in advanced technologies, machinery, robotics, and digital business practices. The program received \$1.0 million in the fiscal 2025 Budget Bill, and Commerce reallocated \$4.0 million from the Build Our Future program’s fiscal 2025 appropriation. The fiscal 2026 allowance includes \$6.0 million in general funds for Industry 4.0, a \$1.0 million increase from the prior year, and \$5.0 million above the mandated appropriation. **DLS recommends reducing funding for Industry 4.0 to the mandated funding level of \$1.0 million.**

The fiscal 2026 allowance for OSIE provides a \$2.0 million grant to the Maryland Tech Council for the BioHub Maryland Initiative, which recently opened a training center in Montgomery County to train people for work in the life sciences and biopharma industries. The initiative received a \$500,000 grant in fiscal 2025, and \$250,000 in fiscal 2024. **DLS recommends reducing funding for the initiative to \$500,000, level with fiscal 2025 funding.**

The fiscal 2026 allowance also includes new funding for a \$1.0 million grant to Ignite Capital, a social impact fund and subsidiary of Innovation Works in Baltimore City that provides financial and mentoring support, including below-market rate capital, to social enterprises. **DLS recommends deleting this funding due to the State’s fiscal condition.**

Personnel Data

	<u>FY 24 Actual</u>	<u>FY 25 Working</u>	<u>FY 26 Allowance</u>	<u>FY 25-26 Change</u>
Regular Positions	189.00	208.00	212.00	4.00
Contractual FTEs	<u>39.75</u>	<u>26.40</u>	<u>22.40</u>	<u>-4.00</u>
Total Personnel	228.75	234.40	234.40	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	11.80	5.62%
Positions and Percentage Vacant as of 12/31/24	23.00	11.06%
Vacancies Above Turnover	11.20	

- The fiscal 2026 allowance includes 4 contractual conversions, 1 in the Office of Military Affairs and Federal Affairs and 3 in the Maryland State Arts Council.
- Commerce has 23 vacant regular positions distributed throughout the department, 9 of which were created recently and none of which have been vacant for more than a year. **Commerce should provide an update on efforts to address vacancies in the department.**

Issues

1. Program Changes Proposed for Economic Development Strategy

The Maryland Economic Council (MEC), formed by executive order in June 2023 to make recommendations regarding the State’s business climate, identified the lack of an integrated economic plan and a fragmented, disaggregated economic development structure among the challenges hindering the State’s economic development efforts. The council recommended, among other things, developing and implementing an economic plan, consolidating economic development efforts, and improving coordination among State agencies and programs and with local governments.

The Maryland Economic Development Commission (MEDC), which is separate from MEC, submitted a comprehensive economic development plan to the Governor at the end of calendar 2024, although as of this writing, it had not been released publicly. **Commerce should provide an update on when the Administration will make the plan available to the General Assembly and the public.**

The fiscal 2026 allowance for the DPA includes \$800,000 for a customer relationship management system and other information technology tools in Commerce. DLS has recommended deleting this funding due to the State’s fiscal condition, as discussed in the analysis for Y01A – State Reserve Fund.

DECADE Act

Administration bills SB 427/HB 498 (the DECADE Act) propose many changes to economic development programs, including those in Commerce. Among the changes are:

- requiring Commerce to develop and regularly update a list of priority industries and activities and requiring a number of economic development programs to prioritize making awards within those sectors;
- raising the total and per production caps for the Film Production Activity Tax Credit;
- moving the Build Our Future and RISE Zone programs to MEDCO;
- rebranding SMWOBA as Reinvest for Success and MSBDFA as the Economic Inclusion Fund, and dividing the dedicated tax revenues that SMWOBA currently receives between the two funds;
- Renaming MEDAAF to the Economic Competitiveness Fund, removing the authority overseeing the fund, and increasing the maximum awards that may be provided from the fund; and

- Sunsetting MEDC, MEAF, and the Maryland Industrial Development Financing Authority.

Film Production Activity Tax Credit

Maryland offers a refundable tax credit of up to 28% of the direct costs of film production activity in the State, or 30% for a series, with a per production cap of \$10 million. Qualified small and independent films with direct costs in Maryland of \$25,000 to \$500,000 may receive a maximum credit of \$125,000. The Maryland Film Office within Commerce accepts applications for the credits before production begins on a first-come, first-served basis up to an annual cap set in statute, with 10% of the total annual cap set aside for qualified small films. After a production’s application has been accepted and filming takes place, the production applies to the Film Office for a final certification, which the production then submits with its State income tax return in order to claim the credit.

The statutory limit for the total value of credits that may be awarded is \$17.5 million in fiscal 2025, \$20.0 million in fiscal 2026, and \$12.0 million in fiscal 2027 and each year thereafter. Applications that are submitted and approved in a given year do not always meet the statutory limit, however. In fiscal 2024, the Maryland Film Office approved 14 applications, including 10 for qualified small films, with a maximum total credit value of \$2.1 million, well below the total statutory cap for fiscal 2024 of \$15.0 million.

The DECADE Act would remove the \$10.0 million per production cap and increase the maximum credit value to \$20.0 million for fiscal 2026 and each year thereafter. There is global competition for film production business, however, and Maryland is one of at least 37 states with some form of incentive for in-state film production that compete for a limited number of large-scale productions. **Given the State’s fiscal constraints and the need to carefully target limited business development resources, DLS recommends adding BRFA provisions to limit the maximum tax credit value to \$12.0 million in fiscal 2026.**

RISE Zones

The RISE Zone Program offers property and income tax credits to businesses in the areas around certain institutions, primarily institutions of higher education. Qualified institutions or local government agencies can also establish business rental assistance programs. An evaluation commissioned by Commerce found that from the program’s launch in 2015 through 2023, only 3 companies creating a total of 16 jobs in one RISE Zone have applied for benefits through the program. The evaluation concluded that the program “has not produced any economic benefit” to RISE Zone institutions, businesses, or the surrounding communities and called it “a textbook example of the failure to leverage the intellectual capital generated by the wealth of research institutions in the State.” The DECADE Act proposes to restructure and transfer the program to MEDCO. **Given the lack of results from the program thus far, Commerce should comment on the anticipated benefit of transferring the program to MEDCO, rather than allowing it to sunset in 2030.**

The fiscal 2026 allowance includes \$750,000 in general funds for the RISE Zone business rental assistance program. However, funding from past years has not been used, and the program has a fund balance of \$750,000. **DLS recommends deleting the general funds and authorizing the funds to be replaced with special funds due to the availability of existing fund balance and the underutilization of the program.**

2. More Jobs for Marylanders Allowance Continues to Increase

Chapter 149 of 2017, as modified by Chapter 136 of 2022, established the More Jobs for Marylanders Program, which provides State income tax, sales tax, property tax, and fee benefits to certain businesses that create and maintain a minimum number of qualified jobs. Eligibility for specific benefits is determined by the type of business, its location, whether it is a new business, and whether it enrolled in the program before or after the Chapter 136 modifications. Generally, a business must be primarily engaged in manufacturing or located in a federal opportunity zone to be eligible. As long as program requirements continue to be met, businesses are eligible for 5 or 10 consecutive years of benefits. Benefits include a refundable State income tax credit equal to 4.75%, or 5.75% of the wages paid to each qualified position, with the lower rate for projects enrolled after the Chapter 136 modifications.

Tier I Areas, where projects are eligible for 10 years of benefits, include Baltimore City and Allegany, Baltimore, Caroline, Cecil, Dorchester, Garrett, Kent, Prince George’s, Somerset, Washington, Wicomico, and Worcester counties as well as opportunity zones anywhere in Maryland. All other areas are Tier II Areas, where projects are eligible for five years of benefits. Counties must meet specified income or unemployment criteria or be designated by Commerce to be considered a Tier I Area.

Enrollment for the program closed May 31, 2024. Prior to that date, Commerce enrolled 35 projects during fiscal 2024. Of the 35 approved projects, 26 are located in Tier I areas.

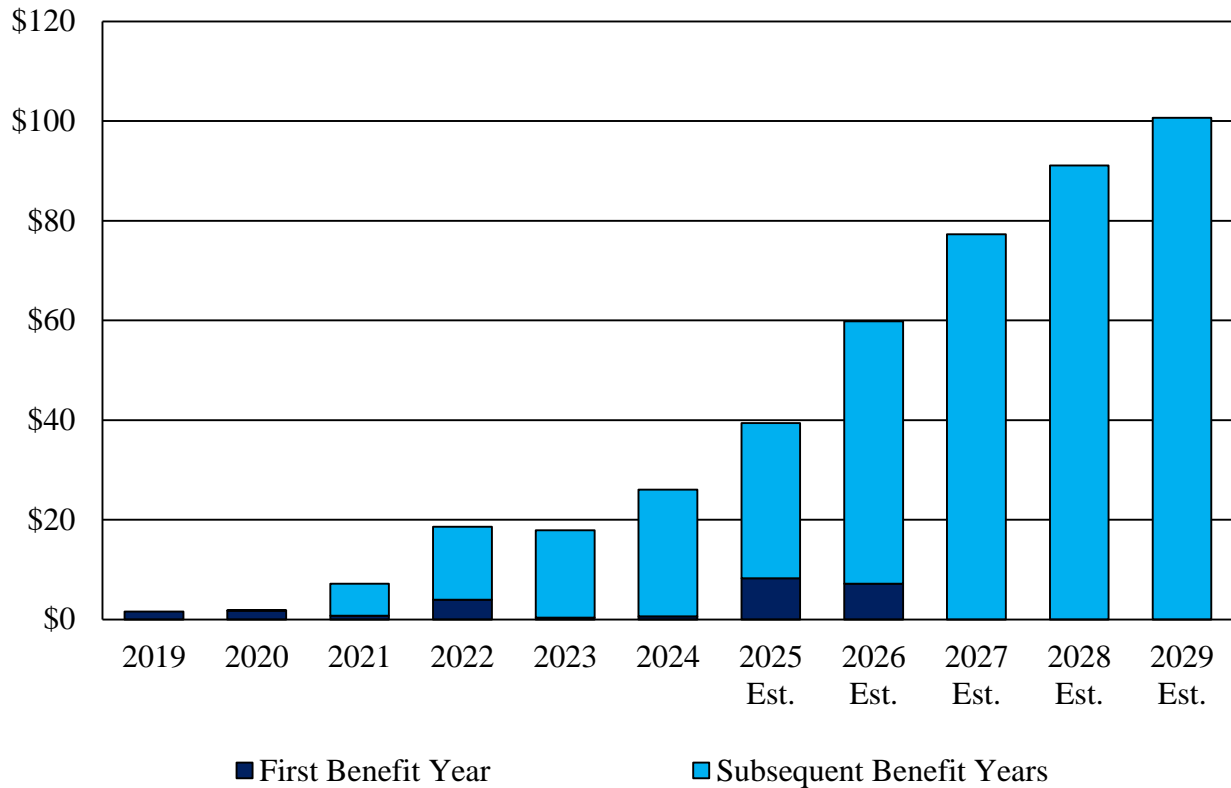
The fiscal 2026 allowance includes \$47.8 million for the More Jobs for Marylanders program – a \$10.3 million (27%) increase from the fiscal 2025 working appropriation. Of the fiscal 2026 appropriation, \$31.1 million is provided in general funds and \$16.7 million is provided in special funds, expected to be expended from the program’s tax credit reserve fund balance.

Program Activity

The first step for a company to participate in the program is to submit a notice of intent (NOI). Once a company submits an NOI, the company must, within 1 year, start hiring the eligible positions and fill the minimum number of required positions within 1 year of the first hire. The company must also submit an application to enroll the company’s project in the program. This application contains wage data that Commerce uses to estimate the tax credit amount that the company is likely to be awarded. After enrolling in the program, a company may submit an application for an initial tax credit certificate, which states that the maximum credit amount that the company is entitled to for its first benefit year. Based on regulations adopted in April 2022,

companies must be enrolled for 1 year before applying for an initial certificate. Once the last eligible position hired has been in place for 1 year, the company can apply for a final credit certificate, which determines the actual amount of the credit that the business can claim in its first benefit year. As companies are eligible for 5 to 10 years of incentives, the company must apply again for a new initial credit certificate and a new final credit certificate for each subsequent benefit year. **Exhibit 4** shows projections as of October 2024 of the value of initial certificates issued in the first and subsequent benefit years for companies enrolled in the program.

Exhibit 4
More Jobs for Marylanders Tax Credits – Initial Certificates
Fiscal 2019-2029 Est.
(\$ in Millions)



Source: Department of Commerce

In fiscal 2024, 22 companies received final certificates, totaling \$19.0 million for 3,090 jobs. The top companies by credit amount and job totals were Northrop Grumman (\$8.9 million, 1,407 jobs), Kite Pharma (\$4.9 million, 614 jobs), and Novavax (\$2.2 million, 282 jobs).

Program Funding

Program activity is expected to expand significantly in future years. Since qualifying businesses can apply for up to 10 consecutive years of credits, program expenditures are likely to continue into the 2030s. The tax credit reserve fund provides a reserve from which Commerce can reimburse the General Fund for the value of final certificates that companies claim under the program. The department is required to provide an estimate of projected demand each year to be provided in the budget allowance. However, because estimates are based on the value of initial certificates, they represent the upper limit for the amount of tax credits claimed, and most companies have not claimed the full value of initial certificates, resulting in a fund balance. **Exhibit 5** shows the projected reserve fund balance if all initial certificate amounts were claimed on final certificates, with the \$31.1 million general fund allowance for fiscal 2026. Although the projection shows a negative balance, Commerce believes the fiscal 2026 general fund appropriation to the fund combined with the existing fund balance will be able to cover tax credits claimed through the program.

Exhibit 5
More Jobs for Marylanders Tax Credit Reserve Fund
Fiscal 2019-2026 Est.
(\$ in Millions)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Est.</u> <u>2025</u>	<u>Est.</u> <u>2026</u>
Starting Balance of								
Unencumbered Funds	\$0.0	\$7.4	\$12.8	\$8.0	\$1.3	\$15.5	\$27.5	\$25.6
Transfer from Sales and Use								
Tax Refund Reserve Fund				\$2.0				
Appropriation to Reserve								
Fund	\$9.0	\$7.0	\$2.0	9.5	\$30.0	\$34.0	\$37.5	\$31.1
Canceled Encumbrances		0.2	0.4	0.4	2.0	4.1		
Available Funds	\$9.0	\$14.6	\$15.1	\$19.9	\$33.4	\$53.6	\$65.0	\$56.8
Encumbrances Based on								
Initial Tax Credit								
Certificates	\$1.6	\$1.8	\$7.2	\$18.6	\$17.9	\$26.0	\$39.4	\$59.8
End of Year Balance of								
Unencumbered Funds	\$7.4	\$12.8	\$8.0	\$1.3	\$15.5	\$27.5	\$25.6	-\$3.1

Source: Department of Commerce; Department of Legislative Services

Note: Does not account for transfers from the fund to the general fund proposed in the BRFA.

The BRFA includes provisions authorizing the Governor to transfer up to \$4.3 million from the reserve fund to the General Fund in fiscal 2025 and requiring that any excess amount between the value of initial and final certificates will revert to the General Fund on an annual basis. On average, over the first four years of the program, 84% of the credits initially applied for were authorized in the final certificates. If that pattern continues with the initial certificates that Commerce anticipates issuing in the coming years, DLS estimates that the provision would lead to a reversion to the General Fund of \$6.0 million in fiscal 2026, increasing annually, with a total of \$58.0 million reverted from fiscal 2026 through 2030.

3. Small, Minority, and Women-Owned Businesses Account

SMWOBA is designed to provide loans to minority-owned businesses, women-owned businesses, or businesses with no more than 500 employees that are located primarily in the areas of the State with gaming facilities. The account receives 1.5% of revenues from the operation of video lottery terminal (VLT) facilities. The fiscal 2026 allowance includes \$20.8 million in special funds from VLT revenues, a 4% increase from the fiscal 2025 working appropriation.

Commerce selects fund managers according to criteria developed by the department and distributes SMWOBA funds to the fund managers, subject to approval by BPW. There is no statutory formula or direction as to how much each fund manager is to receive. Fund managers are required to allocate at least 50% of their funds to businesses in jurisdictions and communities surrounding VLT facilities, referred to as “targeted areas.” While not defined in the law or by regulation, the department considers the targeted areas to be as follows: (1) a 10-mile radius around each of the MGM National Harbor, Horseshoe, and Live! casinos; (2) for the Hollywood casino, Cecil, Harford, and Kent counties; (3) for the Ocean Downs casino, Somerset, Wicomico, and Worcester counties; and (4) for the Rocky Gap casino, Allegany, Garrett, and Washington counties. **Exhibit 6** shows the total amount of funds awarded to each fund manager since the account’s inception.

Exhibit 6
Funds Awarded to Fund Managers
Fiscal 2013-2024
(\$ in Millions)

<u>Fund Manager</u>	<u>Since</u>	<u>Total Funds Awarded</u>
Anne Arundel Economic Development Corporation	2013	\$18.7
Maryland Capital Enterprises, Inc.	2013	19.8
Meridian Management Group Inc.	2013	24.2
Baltimore County Department of Economic and Workforce Development	2014	11.4
Baltimore Development Corporation	2014	10.0
Howard County Economic Development Authority	2014	12.8

T00 – Department of Commerce

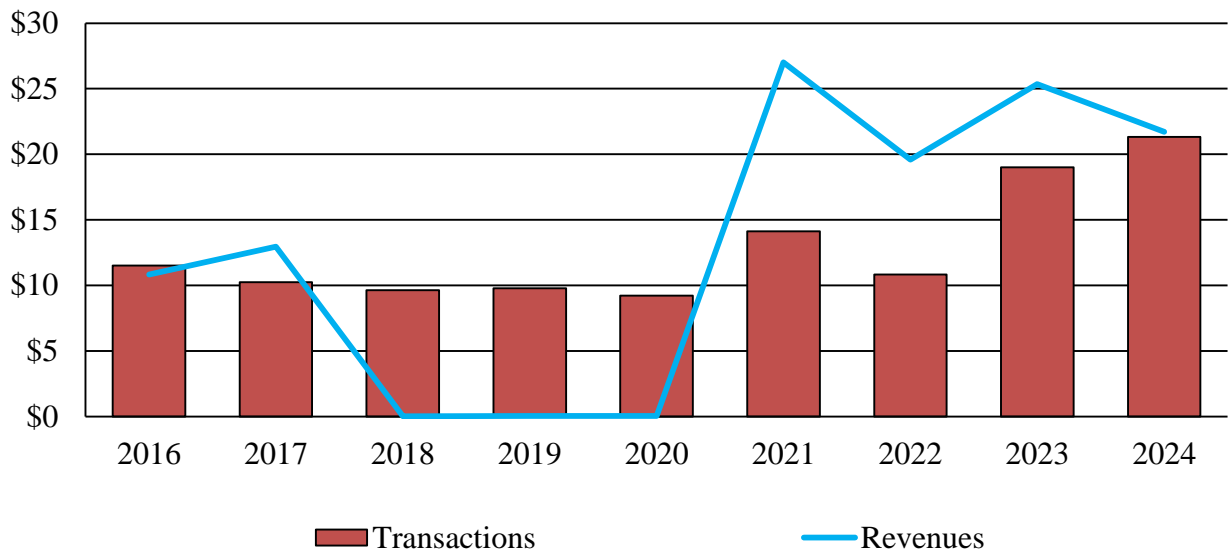
<u>Fund Manager</u>	<u>Since</u>	<u>Total Funds Awarded</u>
Tri-County Council of Western Maryland	2014	11.4
FSC First	2016	17.3
Montgomery County Economic Development Corporation	2022	3.7
Total		\$129.2

FSC: Facility Security Committees

Source: Department of Commerce

SMWOBA has historically received more VLT revenues than it is able to distribute via loans. As of September 2024, the program held about \$40.0 million in encumbrances for the fund managers and had more than \$12.0 million in unencumbered funds. **Exhibit 7** shows VLT revenues and settled transactions for the account. In fiscal 2024, revenues were \$21.7 million, and fund managers settled \$21.3 million of transactions.

Exhibit 7
SMWOBA Revenues and Settled Transactions
Fiscal 2016-2024
(\$ in Millions)



SMWOBA: Small, Minority, and Women-Owned Business Account

Source: Department of Commerce

T00 – Department of Commerce

In fiscal 2024, \$10 million was transferred from SMWOBA to MSBDFA to address a cash shortfall, and Chapter 474 of 2024 removed a mandate that the Strategic Energy Investment Fund transfer \$1.2 million to SMWOBA each fiscal year from 2025 through 2028. Chapters 68 and 69 of 2024 authorized fund managers to offer grants along with loans through the SMWOBA program, in part to attract more interest from potential borrowers. A provision in the DECADE Act would divide VLT revenues that SMWOBA currently receives between SMWOBA and MSBDFA. **Commerce should provide an update on the implementation and impacts of Chapters 68 and 69.**

SMWOBA Performance Metrics

Commerce provides metrics on the number of approved loans and capital approved through the SMWOBA program as well as the number of retained and new jobs as reported by fund managers. The department began including them in the Managing for Results data with the fiscal 2025 budget submission. Performance data for fiscal 2019 through 2024 are shown in **Exhibit 8**. Fund managers approved 173 loans in fiscal 2024, with 148 of those loans (86%) going to minority-, women-, or veteran-owned businesses. The loans represented \$22.2 million in capital funding for those businesses, a decrease from \$23.8 million in fiscal 2023 but well above the fiscal 2022 total of \$15.6 million.

Exhibit 8
SMWOBA Loan Metrics
Fiscal 2019-2024
(\$ in Millions)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Approved Loans	73	77	242	161	178	173
Approved Loans to Minority-owned, Women-owned and Veteran-owned Businesses	41	54	178	86	132	148
Capital Provided to Businesses	\$11.6	\$10.2	\$14.8	\$15.6	\$23.8	\$22.2
At Risk/Retained Jobs	462	432	862	1,421	1,191	1,866
New Jobs	491	463	479	338	947	732

SMWOBA: Small, Minority, and Women-owned Businesses Account

Source: Managing for Results

Note: Metrics show the number and value of approved transactions, which may differ from the number and amount of settled transactions shown elsewhere in this analysis.

Operating Budget Recommended Actions

	Amount Change	
1. Reduce the general fund appropriation for out-of-state/routine operations travel in the Office of the Managing Director of Business and Industry by \$457,241 to the fiscal 2024 actual expenditures level.	-\$ 457,241	GF
2. Delete grant funding to Ignite Capital.	-\$ 1,000,000	GF
3. Reduce funding for the Industry 4.0 program to the mandated funding level of \$1 million.	-\$ 5,000,000	GF
4. Reduce grant funding to the Maryland Tech Council for the BioHub Maryland Initiative to the fiscal 2025 funding level of \$500,000.	-\$ 1,500,000	GF
5. Reduce funding for the Build Our Future Grant Pilot Program by \$3 million to the fiscal 2025 working appropriation level of \$7 million.	-\$ 3,000,000	GF
6. Reduce funding for the Regional Institution Strategic Enterprise Zone business rental assistance program due to an available fund balance and the underutilization of the program.	-\$ 750,000	GF
7. Reduce funding for the Maryland New Start Microloan Program due to an available fund balance.	-\$ 300,000	GF
8. Reduce funding for the Tourism Development Board to the mandated funding level of \$6 million.	-\$ 6,366,600	GF
9. Strike the following language in the general fund appropriation: provided that this appropriation shall be reduced by \$119,451 contingent upon the enactment of legislation that eliminates the Maryland State Arts Council's General Fund mandate		

Explanation: This action strikes contingent language that is not needed for the General Assembly to reduce the appropriation directly.

T00 – Department of Commerce

	<u>Amount Change</u>	
10. Reduce Maryland State Arts Council base funding to the fiscal 2025 working appropriation level.	-\$ 437,220	GF

11. Add the following language to the general fund appropriation:

, provided that \$10,000,000 of this appropriation is contingent on the enactment of legislation establishing the Strategic Closing Fund within the Department of Commerce.

Explanation: SB 427/HB 498 includes language renaming the Economic Development Opportunities Program Account to the Strategic Closing Fund and establishing it within the Department of Commerce. This language makes funding for the account contingent on the enactment of the legislation.

	<u>Amount Change</u>	
12. Reduce funding for the Economic Development Opportunities Program Account, commonly referred to as the Sunny Day Fund, due to the State’s budget constraints.	-\$ 15,000,000	GF

Total General Fund Net Change **-\$ 33,811,061**

Budget Reconciliation and Financing Act Recommended Actions

1. Adopt a provision limiting the total value of tax credits per year under the Film Production Activity Tax Credit to \$12 million in fiscal 2026.

Updates

1. Port of Baltimore Relief

The PORT Act of 2024 established the Business Assistance Program in Commerce to provide grants of up to \$100,000 to businesses affected by the halt of operations due to the collapse of the Francis Scott Key Bridge. The program received \$15.0 million in the department's fiscal 2024 budget and \$2.0 million from the Revenue Stabilization Account (Rainy Day Fund) and ultimately distributed \$9.5 million to 128 recipients. Unused funds, including all of the Rainy Day Fund appropriation, reverted back to the source of funds at the close of the program in June 2024.

2. Arts Incubator Workgroup

Chapters 613 and 614 of 2024 established a workgroup to study how arts and cultural institutions can support local artists. The Acts required a preliminary report by January 1, 2025, with findings including research, case studies, and examples of approaches used to support artists in other areas, and a final report by October 1, 2025, with recommendations, including any necessary budget, facilities, or in-kind services that could be used to support local artists. The preliminary workgroup report outlines challenges faced by artists in Maryland, including economic challenges, a need for professional development, and public misconceptions about the value of artistic work and services. The preliminary report does not include case studies and examples of approaches to address these challenges but indicates they will be included in the final report. The preliminary report does not issue any formal recommendations, but there are several mentions of advocating for increased State arts funding.

Appendix 1
2024 Joint Chairmen’s Report Responses from Agency

The 2024 *Joint Chairmen’s Report* (JCR) requested that Commerce prepare one report. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Participation in Prekindergarten Programs:*** Language in the budget bill restricted funds until Commerce and MSDE conducted a survey of private and public prekindergarten and child care providers about the barriers hindering them from participating in the State’s publicly funded prekindergarten programs. The survey of 2,386 providers found that 28% of respondents were not at all familiar with the Pre-K Expansion Grant through the Blueprint for Maryland’s Future. Of those who had tried to participate in the grant program or a State-funded preK-12 program, commonly cited barriers include not having enough qualified staff (43%), the program not providing enough per pupil funding (32%), difficulty with grant writing (32%), and a lack of communication between local education agencies or public school systems and private child care providers (30%).

**Appendix 2
Object/Fund Difference Report
Department of Commerce**

<u>Object/Fund</u>	<u>FY 24 Actual</u>	<u>FY 25 Working Appropriation</u>	<u>FY 26 Allowance</u>	<u>FY 25 - FY 26 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	189.00	208.00	212.00	4.00	1.9%
02 Contractual	39.75	26.40	22.40	-4.00	-15.2%
Total Positions	228.75	234.40	234.40	0.00	0.0%
Objects					
01 Salaries and Wages	\$ 25,972,566	\$ 28,149,366	\$ 30,043,288	\$ 1,893,922	6.7%
02 Technical and Special Fees	2,053,498	1,581,004	1,256,165	-324,839	-20.5%
03 Communication	255,375	305,713	305,713	0	0%
04 Travel	682,038	715,332	1,174,832	459,500	64.2%
06 Fuel and Utilities	17,453	18,203	18,203	0	0%
07 Motor Vehicles	281,145	302,625	302,439	-186	-0.1%
08 Contractual Services	24,885,433	17,978,329	18,186,725	208,396	1.2%
09 Supplies and Materials	147,052	236,174	242,374	6,200	2.6%
10 Equipment – Replacement	34,541	34,900	34,900	0	0%
11 Equipment – Additional	11,770	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	218,684,885	161,304,321	201,378,371	40,074,050	24.8%
13 Fixed Charges	2,056,632	1,771,989	1,771,636	-353	0%
14 Land and Structures	37,370,776	63,960,000	55,660,000	-8,300,000	-13.0%
Total Objects	\$ 312,453,164	\$ 276,357,956	\$ 310,374,646	\$ 34,016,690	12.3%
Funds					
01 General Fund	\$ 198,492,166	\$ 146,928,794	\$ 174,965,846	\$ 28,037,052	19.1%
03 Special Fund	103,938,357	110,043,742	124,303,302	14,259,560	13.0%
05 Federal Fund	10,022,641	19,385,420	11,105,498	-8,279,922	-42.7%
Total Funds	\$ 312,453,164	\$ 276,357,956	\$ 310,374,646	\$ 34,016,690	12.3%

Note: The fiscal 2025 appropriation does not include deficiencies. The fiscal 2026 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.

**Appendix 3
Fiscal Summary
Department of Commerce**

<u>Program/Unit</u>	<u>FY 24 Actual</u>	<u>FY 25 Wrk Approp</u>	<u>FY 26 Allowance</u>	<u>Change</u>	<u>FY 25 - FY 26 % Change</u>
01 Office of the Secretary	\$ 1,881,504	\$ 1,917,826	\$ 1,958,099	\$ 40,273	2.1%
02 Office of Policy and Research	4,389,891	1,621,128	1,669,432	48,304	3.0%
03 Office of the Attorney General	1,738,754	1,889,191	1,964,810	75,619	4.0%
08 Division of Administration and Technology	7,361,301	7,218,189	7,552,374	334,185	4.6%
10 Maryland Marketing Partnership	2,489,701	2,500,950	2,500,950	0	0%
01 Division of Business and Industry Sector	892,243	901,980	1,805,022	903,042	100.1%
03 MD Small Business Development Financing	2,598,375	2,548,375	2,548,375	0	0%
04 Office of Business Development	85,260,290	30,859,855	31,426,773	566,918	1.8%
05 Office of Strategic Industries and	14,983,453	15,227,584	21,879,074	6,651,490	43.7%
07 Partnership for Workforce Quality	1,024,314	1,000,000	1,000,000	0	0%
08 Office of Finance Programs	4,581,441	4,627,035	4,795,659	168,624	3.6%
09 Maryland Small Business Development	3,566,177	19,360,000	11,060,000	-8,300,000	-42.9%
10 Office of International Investment and Trade	4,767,228	5,475,125	5,021,799	-453,326	-8.3%
11 Maryland Not-For-Profit Development Fund	1,150,000	1,150,000	1,150,000	0	0%
12 MD Biotechnology Investment Tax Credit	11,875,756	12,000,000	12,000,000	0	0%
13 Office of Military Affairs and Federal Affairs	1,182,309	3,765,578	4,081,018	315,440	8.4%
15 Small, Minority, and Women-Owned Business	18,500,000	19,907,536	20,773,866	866,330	4.4%
18 Military Personnel and Service-Disabled Veteran	250,000	300,000	300,000	0	0%
19 Cybersecurity Investment Incentive Tax Credit	1,668,650	2,000,000	0	-2,000,000	-100.0%
20 Maryland E-Nnovation Initiative	8,500,000	8,500,000	8,500,000	0	0%
21 Maryland Economic Adjustment Fund	50,000	700,000	700,000	0	0%
23 Maryland Economic Development Assistance	6,787,927	17,500,000	17,500,000	0	0%
24 More Jobs for Marylanders Tax Credit Reserve	33,971,753	37,500,000	47,800,000	10,300,000	27.5%
27 Business Telework Assistance Grant Program	1,000,000	0	0	0	0%
30 Regional Institution Strategic Enterprise Zone	750,000	562,500	750,000	187,500	33.3%
31 Child Care Capital Support Revolving Loan	14,540,064	7,800,000	7,800,000	0	0%
32 Western Maryland Economic Future Investment	10,000,000	10,000,000	10,000,000	0	0%
33 Maryland New Start Microloan Program	300,000	300,000	300,000	0	0%
01 Office of the Assistant Secretary	201,244	383,054	384,711	1,657	0.4%

02 Office of Tourism Development	12,651,914	6,786,646	6,971,638	184,992	2.7%
03 Maryland Tourism Development Board	15,158,489	15,493,600	15,493,600	0	0%
04 Office of Marketing and Communications	2,541,601	2,360,584	2,434,198	73,614	3.1%
05 Maryland State Arts Council	32,533,785	31,501,220	31,253,248	-247,972	-0.8%
08 Preservation of Cultural Arts Program	1,705,000	1,300,000	1,300,000	0	0%
09 Baltimore Symphony Orchestra	1,600,000	1,400,000	700,000	-700,000	-50.0%
01 Economic Development Opportunities Program	0	0	25,000,000	25,000,000	0%
Total Expenditures	\$ 312,453,164	\$ 276,357,956	\$ 310,374,646	\$ 34,016,690	12.3%
General Fund	\$ 198,492,166	\$ 146,928,794	\$ 174,965,846	\$ 28,037,052	19.1%
Special Fund	103,938,357	110,043,742	124,303,302	14,259,560	13.0%
Federal Fund	10,022,641	19,385,420	11,105,498	-8,279,922	-42.7%
Total Appropriations	\$ 312,453,164	\$ 276,357,956	\$ 310,374,646	\$ 34,016,690	12.3%

Note: The fiscal 2025 appropriation does not include deficiencies. The fiscal 2026 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.