

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	FY 13	FY 14	FY 15	FY 14-15	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$50,254	\$67,347	\$80,215	\$12,868	19.1%
Contingent & Back of Bill Reductions	0	-900	-189	711	
Adjusted General Fund	\$50,254	\$66,448	\$80,026	\$13,579	20.4%
Special Fund	66,556	66,886	80,858	13,971	20.9%
Contingent & Back of Bill Reductions	0	0	-72	-72	
Adjusted Special Fund	\$66,556	\$66,886	\$80,786	\$13,900	20.8%
Federal Fund	3,475	22,937	808	-22,128	-96.5%
Contingent & Back of Bill Reductions	0	0	-5	-5	
Adjusted Federal Fund	\$3,475	\$22,937	\$803	-\$22,134	-96.5%
Reimbursable Fund	969	1,017	0	-1,017	-100.0%
Contingent & Back of Bill Reductions	0	0	0	0	
Adjusted Reimbursable Fund	\$969	\$1,017	\$0	-\$1,017	-100.0%
Adjusted Grand Total	\$121,254	\$157,287	\$161,615	\$4,328	2.8%

- The fiscal 2015 allowance includes several deficiencies for fiscal 2014 that reduce general fund appropriations by \$550,000 and increase special funds by \$5.61 million. The special fund increases include \$5.0 million for the Maryland Economic Development Assistance Authority and Fund (MEDAAF); \$110,000 for the Not-For-Profit Development Fund; and \$500,000 for the Preservation of Cultural Arts.
- The fiscal 2015 allowance increases by \$4.3 million, or 2.8%, over the fiscal 2014 working appropriation. However, this growth is understated due to a significant loss of federal funds. Absent federal funds, the budget grows by \$27.5 million, or 20.6%. The primary driver of the increase is a \$14.6 million increase in MEDAAF (special and general funds). Other notable

Note: Numbers may not sum to total due to rounding.

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increases include a \$2.0 million in the Biotechnology Investment Incentive Tax Credit and a \$1.0 million increase in the CyberMaryland Investment Incentive Tax Credit.

- Federal funds decline by over \$22.1 million, due to the one-time infusion of funds under the U.S. State Small Business Credit Initiative. Also, the department is no longer the recipient of reimbursable funds. This is due to the termination of funds from the Maryland Department of Transportation under the Scenic Byways program and the transfer of the Office of Sports Marketing to the Maryland Stadium Authority.

Personnel Data

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>
Regular Positions	222.00	222.00	220.00	-2.00
Contractual FTEs	<u>16.45</u>	<u>19.45</u>	<u>18.15</u>	<u>-1.30</u>
Total Personnel	238.45	241.45	238.15	-3.30

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	8.80	4.00%
Positions and Percentage Vacant as of 12/31/13	17.00	7.66%

- The fiscal 2015 allowance reflects the loss of 2 positions – both federally funded. The department is no longer receiving a grant from the federal Office of Economic Adjustment that funded a position related to base realignment and closure issues. Similarly, the department is no longer the recipient of a grant from the federal State Trade and Export Promotion program. As such, both positions have been eliminated from the department’s allowance.
- At the end of calendar 2013, there were 17 positions vacant, well over the amount required to meet turnover.

Analysis in Brief

Major Trends

Department Tracks Jobs Created or Retained: The department aims to develop and maintain a pipeline of projects resulting in facility location decisions and other projects that create or retain jobs. As a result of its actions, the department reports that 10,652 jobs were created or retained in fiscal 2013. This represents a 0.7% increase from the previous fiscal year.

Slight Rebound in Welcome Centers Visitors: The cost containment initiative in fiscal 2009 and 2010 resulted in the closure of many of the State’s visitor centers. There has been an effort to reopen the centers, often with local assistance. In fiscal 2013, the number of visitors utilizing the centers increased by 13.4% from fiscal 2012.

Issues

Report on the Distribution of the Maryland Biotechnology Investment Tax Credit: Narrative was included in the 2013 *Joint Chairmen’s Report* that directed the department to examine its administration of the biotechnology tax credit. There was some concern that some companies were disproportionately benefiting from the program. **The Department of Legislative Services (DLS) recommends that the department comment on the distribution of the biotechnology investment tax credit and on the administrative or legislative changes its plans to pursue to address any distribution inequity.**

Third and Final Year of Original InvestMaryland Funding: InvestMaryland is a State-supported venture capital program that was funded through an auction of tax credits against the insurance premiums tax. Fiscal 2015 marks the third and final year in which the program will be funded by the auction proceeds. The department has begun making investments from the program, and it reports that these investments have thus far created or retained 1,115 jobs. **DLS recommends that the department discuss the investments made thus far under the InvestMaryland Program; how it has spurred job creation and the development of early-stage companies; and how the program will proceed without the influx of additional tax auction proceeds.**

Tax Credit Evaluation Act – One Maryland and Enterprise Zone: Chapters 568 and 569 of 2012 established the Tax Credit Evaluation Act which set out a legislative process for evaluating certain tax credits. DLS issued the first of its evaluations in November 2013 on the One Maryland Tax Credit and the Enterprise Zone program. The evaluations included numerous recommendations that impact how the department administers and monitors the credits. **DLS recommends that the department briefly respond to the recommendations and any steps it has taken to improve the administration of the credit programs.**

Impact of Trade Missions: The Administration and members of the business community embarked upon a nine-day trade mission to Brazil and El Salvador in December 2013. The trip was designed to

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encourage Maryland business exports as well as foreign investment in the State. **DLS recommends that the department comment on the value of international trade missions and on how its Office of International Trade and Investment facilitates the growth of Maryland businesses.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete a grant for procurement training.	\$ 150,000	
2. Delete a long-term vacant position.	92,796	1.0
3. Delete the increase in the Biotechnology Investment Tax Credit program.	2,000,000	
4. Delete the increase in the CyberMaryland Investment Tax Credit program.	1,000,000	
5. Delete the general funds under the Maryland Economic Development Assistance Authority and Fund.	8,923,234	
6. Reduce general funds for tourism grants.	2,500,000	
Total Reductions	\$ 14,666,030	1.0

Updates

Central Business Licensing System: A component of the Administration’s Maryland Made Easy initiative, the Central Business Licensing System is designed to make it easier for businesses to obtain necessary permits, registrations, licenses, etc. The scale of the system is considerably smaller than was first planned. Additionally, only 13% of eligible businesses are using the system to submit the types of paperwork currently available.

Major Grants: The department expects to award over \$24.8 million in various economic development, tourism, and arts related grants in fiscal 2015.

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Department of Business and Economic Development

Operating Budget Analysis

Program Description

The mission of the Department of Business and Economic Development (DBED) is to strengthen the Maryland economy. DBED 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. The department's primary goals are to increase business investment in Maryland; enhance business success and the competitiveness of businesses in their distinct markets; and develop a diverse economic base and ensure that all jurisdictions share in the State's economic vitality.

The department's divisions include the Office of the Secretary; the Division of Business and Enterprise Development; the Division of Marketing and Communications; and the Division of Tourism, Film, and the Arts. The department's mission and goals are supported by these four divisions:

- ***Office of the Secretary:*** The Office of the Secretary provides leadership and direction to the activities of the department and maintains working relationships with State and federal agencies, county and municipal governments, businesses, and organizations. Included in the program are the Office of the Attorney General, Equal Opportunity, and Internal Audits. Also included under the purview of the Secretary is the Maryland Biotechnology Center.
- ***Division of Marketing and Communication:*** This division promotes the State of Maryland throughout the nation as an ideal location to establish new business facilities. Business recruitment teams specializing in advanced technology, life sciences, financial services, alternative energies, and science and security promote Maryland using industry-focused business recruitment and marketing strategies.
- ***Division of Business and Enterprise 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. This division also includes the Offices of International Investment and Trade, Military and Federal Affairs, and the newly created Office of Strategic Industries and Innovations. The division provides access to capital markets through a variety of financing programs, worker training assistance for new and expanding businesses, and funding assistance to local jurisdictions to support infrastructure and economic development efforts.
- ***Division of Tourism, Film, 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.

Business Assistance Programs

DBED administers several primary business assistance programs. These programs provide resources upon which the Division of Business and Enterprise Development draws when assembling incentives to help a business expand or locate in Maryland. Following are the five main assistance programs in the operating budget:

- ***Maryland Economic Development Assistance Authority and Fund:*** The Maryland Economic Development Assistance Authority and Fund (MEDAAF) was established by the General Assembly under Chapter 301 of 1999 as a revolving loan fund. The fund 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. Funds may be used for property acquisition, construction, or renovation of buildings including tenant improvements and capital equipment.
- ***Maryland Small Business Development Financing Authority:*** This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172 of 2001 broadened the Maryland Small Business Development Financing Authority's (MSBDF) scope to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria. A private contractor, currently Meridian Management Group, Inc., reviews the financing applications for presentation to the MSBDF board. MSBDF has four programs: Contract Financing Program, Long-Term Guaranty Program, Surety Bond Program, and the Equity Participation Investment Program.
- ***Maryland Enterprise Investment Fund:*** This program provides capital through equity purchases for start-up companies that are developing innovative technologies. Investments are limited to 25% of the company's total equity and require a three-to-one outside investor match. Individual investments, except those made in venture capital limited liability companies, are limited to \$500,000 and may not exceed 15 years in duration. Beginning in fiscal 2013, this program became the means for the department to implement the InvestMaryland Program.
- ***Maryland Economic Adjustment Fund:*** This program was originally established to provide loans to new or existing companies in communities suffering from dislocation due to defense adjustments. The program has expanded and is often used as a source of direct lending assistance to small businesses. Recipient companies do not have to show that they have suffered as a result of declining defense spending, only that they are located in an area suffering from defense adjustments.
- ***Economic Development Opportunities Program Fund (Sunny Day):*** This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged.

Types of Financing Assistance

DBED's business assistance may take the form of investments, loans, grants, conditional loans and grants, and tax credits.

- **Investments:** DBED considers investments the primary tool for business assistance. The agency purchases equity from companies to provide capital for them. Investments are made with the hope of an eventual financial return, but the timing and the amount of the return are unknown.
- **Loans:** DBED loans are structured similar to conventional loans, but they have a favorable interest rate. The interest rate may scale down annually if the business is meeting or exceeding the job creation goals as agreed to in the loan documents; likewise, the rate may scale up if the business is not meeting these goals.
- **Conditional Loans and Grants:** With conditional loans, repayment is forgiven if the business achieves employment goals. In effect, conditional loans become grants if conditions are met. DBED treats conditional grants the same as conditional loans, but in some cases, a company may not want to account for DBED assistance as debt, and so they receive a conditional grant. In other cases, conditional grants are used if a company must meet a target, such as completing a feasibility study, before the funds are awarded.
- **Grants:** With grants, there is no repayment of the funds, and no conditions are attached. DBED does not often use this form of assistance.
- **Tax Credits:** The department administers several tax credit programs including the Biotechnology Investment Tax Credit; the Base Realignment and Closure (BRAC) Revitalization and Incentive Zone Program; the Brownfields Tax Incentive; the Enterprise Zone Tax Credits; the Job Creation Tax Credit; the One Maryland Tax Credit; the CyberMaryland Investment Incentive Tax Credit, the Film Production Incentive Tax Credit, and the Research and Development Tax Credit. Only two programs, the Biotechnology Investment Tax Credit program and the CyberMaryland Investment Incentive Tax Credit, are budgeted within the department's appropriation.

Performance Analysis: Managing for Results

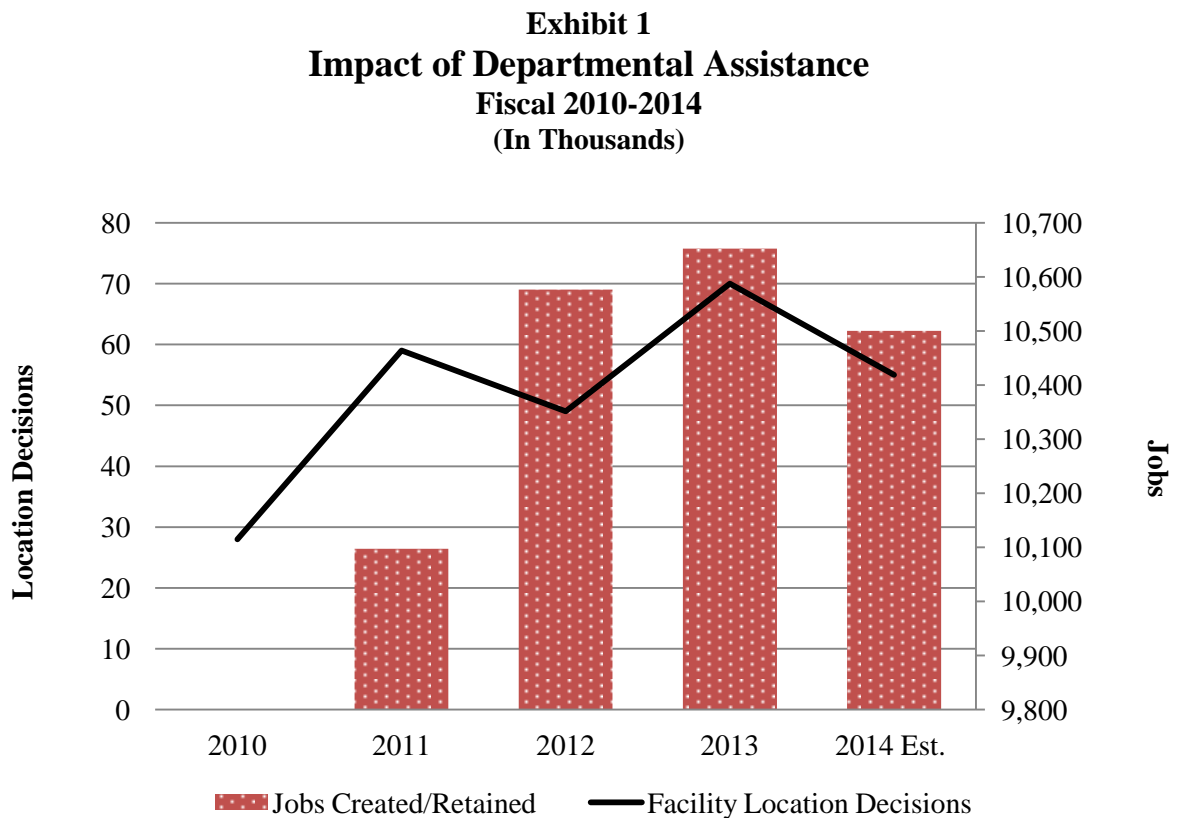
1. Department Tracks Jobs Created or Retained

The department aims to develop and maintain a pipeline of projects resulting in facility location decisions and other projects that create or retain jobs. A facility location decision is defined as a statement by a top-level executive indicating a company's intention to locate to Maryland or to remain or expand in Maryland after considering potential locations outside the State and after intervention by the department.

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The department’s attempts to measure the impact of its activities have met with varied success. Many of the department’s performance measures only show a few years of data. This is a result of several departmental reorganizations and of prior issues with the data collection and control procedures raised by the Office of Legislative Audits. Measures continue to evolve. For example, the fiscal 2014 budget submission marked the first inclusion of a measure showing jobs created or retained as a result of departmental input. Jobs are counted as created or retained if there is a facility location decision or if the department was able to resolve a major issue for a company. The company must document the number of jobs created or retained before it may be counted.

Exhibit 1 shows the number of facility location decisions and the number of jobs created or retained. Data on jobs is not available prior to fiscal 2011. The data shows that the department was able to increase the number of jobs created or retained by 4.7% from fiscal 2011 to 2012. Jobs increased again in fiscal 2013 by another 0.7%. Some recent examples of jobs counted in this performance measure are Amazon Fulfillment Center (1,600 jobs for Baltimore City); Trustifier (200 cybersecurity jobs for Anne Arundel County); and VariQ (64 information technology (IT) jobs for Montgomery County).



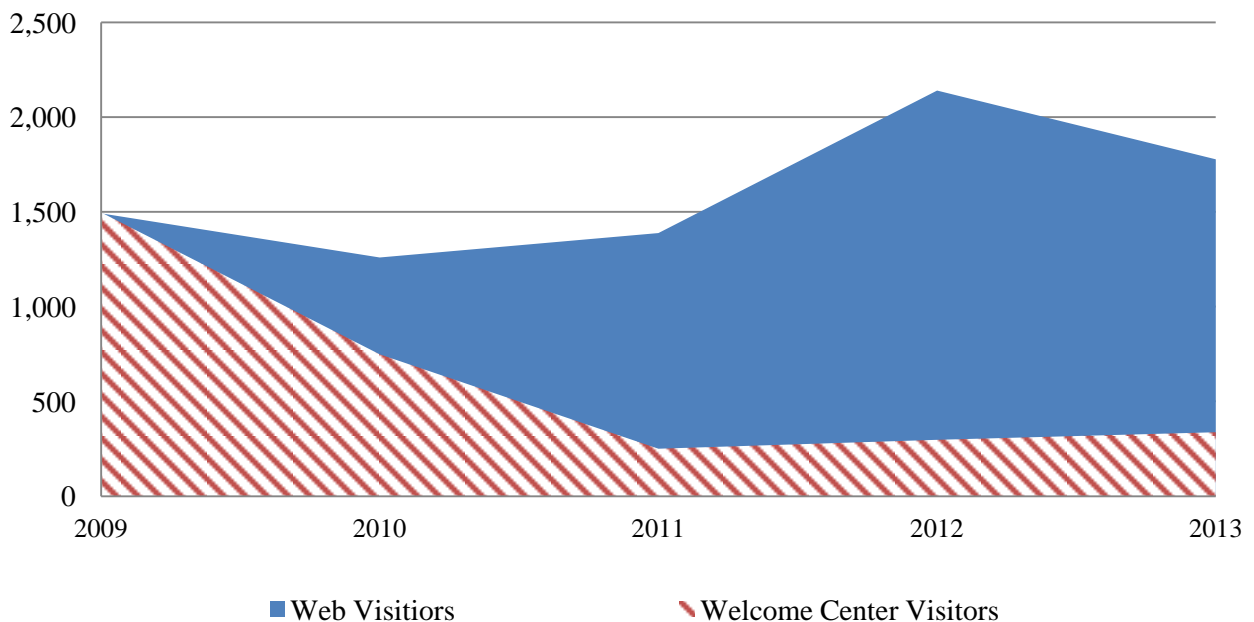
Source: Governors Budget Books, Fiscal 2015

2. Slight Rebound in Welcome Centers Visitors

The Maryland Department of Transportation (MDOT) operates and maintains rest areas, some with welcome centers and some without, at major gateways and strategic locations across the State. Prior to fiscal 2011, DBED provided operating funds and staff for the welcome centers as a means to promote tourism. The cost containment initiative of 2010 resulted in the closure of 6 of the 12 welcome centers in the State. The fiscal 2011 budget, as introduced, assumed the closure of an additional 4 centers. In an effort to prevent the additional closures, the fiscal 2011 budget bill included language that restricted \$300,000 in general funds under the department’s Tourism Development Board. The purpose of the language was to provide funds to keep 6 specified centers open contingent on the financial participation of the local jurisdictions.

Since then, the department’s Office of Tourism Development has taken steps to ensure the operation of as many centers as possible. There are currently 11 centers open. Of these, the department operates 5 centers, and 6 centers were transferred to other State agencies or to local governments. Some are still operating at reduced hours. **Exhibit 2** demonstrates the extent of the disruption of service.

Exhibit 2
Web and Welcome Center Visitors
Fiscal 2009-2013
(In Thousands)



Source: Governor’s Budget Books, Fiscal 2015

Visits to welcome centers are rebounding. In fiscal 2013, there was a 13% increase in visitation, due in part, to a full year of operation of the Mason Dixon Welcome Center. Also, the South Mountain East and West welcome centers on I-70 were re-opened after construction in September 2012. However, it is unlikely that visits will return to the levels achieved before the cost containment initiative. Three of the centers are open for only five days weekly in the summer months and four days through the winter. Similarly, two centers are only open four days a week in the summer and three days in the winter. By contrast, the traffic on the department's tourism website remains robust. There was a large surge in website visitors in fiscal 2012, representing a 54% increase.

Fiscal 2014 Actions

Proposed Deficiency

The fiscal 2015 budget bill includes a number of deficiency appropriations that affect the fiscal 2014 appropriation.

The allowance includes \$110,000 in special funds to support the Maryland Not-for-Profit Development Center Fund. Chapter 313 of 2008 created the program, which is designed to provide training and technical assistance grants to nonprofit organizations. The program is funded by a \$50 processing fee on articles of incorporation filed by nonstock corporations. Funding was provided in the fiscal 2012 allowance; however, the cost containment effort deleted the funds and transferred the proceeds to the general fund. Although the program has never been funded, the fees have been accruing to the fund since fiscal 2012.

The net effect of two deficiencies related to the MEDAAF results in the addition of \$4.5 million to that program in fiscal 2014. The fiscal 2014 budget bill included language restricting \$500,000 in general funds in the MEDAAF to be used only (if transferred by budget amendment) by the Maryland Technology Development Corporation (TEDCO) for its Rural Business Initiative program. The funds are required to revert if not used for the restricted purpose. The Administration chose not to transfer the funds for the restricted purpose and instead withdrew the \$500,000 in general funds as cost containment. Mitigating the general funds savings is an additional deficiency appropriation that would add \$5.0 million in special funds for the MEDAAF for "business assistance to encourage relocation of businesses to Maryland and expansion of existing businesses in the State."

The Special Fund for the Preservation of Cultural Arts in Maryland is a special fund within the department that was designed to provide emergency grants for cultural arts organizations that are in danger of closing. It is funded by a portion of the admissions and amusement tax on electronic bingo machines in certain counties. The Budget Reconciliation and Financing Acts (BRFA) of the last several years have diverted funding from the fund for cost containment and other budgetary purposes. The fund was never used for its intended purpose. The fiscal 2015 allowance includes a fiscal 2014 deficiency of \$500,000 in special funds for the program.

Cost Containment

There are three across-the-board withdrawn appropriations that offset the increase in deficiency appropriations. This includes reductions to employee/retiree health insurance, funding for a new Statewide Personnel IT system, and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel, IT and the State Retirement Agency.

There is an additional negative deficiency that eliminates \$50,000 in general funds from the fiscal 2014 working appropriation. The funds were originally meant to be transferred as a grant to the Department of Agriculture to help promote the wine and grape industries. Instead, these funds will be used for cost containment in fiscal 2014.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2015 allowance increases by 2.8%, or \$4.3 million, after contingent and specified reductions. General funds are increasing significantly due to enhancements in the MEDAAF program and the department’s tax credit programs. The increases are mitigated by the loss of federal funds from the U.S. State Small Business Credit Initiative.

Exhibit 3
Proposed Budget
Department of Business and Economic Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2014 Working Appropriation	\$66,448	\$66,886	\$22,937	\$1,017	\$157,287
2015 Allowance	<u>80,026</u>	<u>80,786</u>	<u>803</u>	<u>0</u>	<u>161,615</u>
Amount Change	\$13,579	\$13,900	-\$22,134	-\$1,017	\$4,328
Percent Change	20.4%	20.8%	-96.5%	-100.0%	2.8%

Where It Goes:

Personnel Expenses

Abolished positions.....	-\$197
Annualization of fiscal 2014 salary adjustments.....	352
Fiscal 2015 increments and other compensation.....	62
Employee and retiree health insurance.....	-199

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Where It Goes:

Retirement	277
Turnover adjustments.....	3
Other fringe benefit adjustments	-21

Other Changes

Maryland Economic Development Assistance Authority Fund.....	14,650
Small, Minority, and Women-Owned Business Account	2,009
Restoration of the fund for the Preservation of Cultural Arts	2,000
Biotechnology Investment Tax Credit	2,000
CyberMaryland Investment Tax Credit.....	1,000
Grants under the State Arts Council.....	628
Expansion of international trade shows and foreign offices	213
New grant for veteran procurement training	129
Communication and travel	71
Not-for-Profit Development Fund.....	110
Contractual staff	-63
Military grants due to loss of federal funds.....	-76
Management studies due to one-time studies in fiscal 2014	-100
Trade grants due to loss of federal funds	-105
Other tourism marketing grants Office of Tourism Development.....	-79
Cyber grants	-161
IT and other professional service contracts under the Arts Council	-202
One-time arts grant in fiscal 2014.....	-597
Maryland Economic Adjustment Fund	-700
Maryland Industrial Development Financing Fund	-2,434
Grants under the Maryland Tourism Development Board.....	-2,805
Maryland Small Business Development Financing Authority.....	-4,258
Enterprise Fund (InvestMaryland)	-7,186
Other changes.....	7

Total **\$4,328**

IT: information technology

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Cost Containment

There is one across-the-board reduction and one contingent reduction reflected in the Governor’s spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree

health insurance and retirement reinvestment. These actions are fully explained in the analyses of DBM – Personnel and the State Retirement Agency.

Financial Assistance Programs

Maryland Economic Development Assistance Authority and Fund

The Maryland Economic Development Assistance Authority and Fund (MEDAAF) is the department's primary and most flexible tool for business financial assistance. The fiscal 2015 allowance includes \$8.9 million in general funds and \$19.1 million in special funds. This is a significant increase over fiscal 2014. It is also the fourth year in which the program received a general fund infusion. Prior to fiscal 2012, the program had not received any general funds since fiscal 2007. It had operated on its special fund revenue and balance.

Exhibit 4 shows the fund balance summary for the MEDAAF for fiscal 2012 through an estimate for fiscal 2015.

The summary shows that the department is attempting to increase the activity in the fund. In fiscal 2012, the department committed \$11.8 million in program activity, an increase from \$8.9 million in activity in fiscal 2011. In fiscal 2013, the department encumbered \$15.0 million for business assistance from the fund. As has been the case in recent years, the summary, as provided by the department, shows that the balance in the program is estimated to decline. However, the department has a history of underestimating its fund balances.

Exhibit 5 shows the estimated and actual fund balances for the MEDAAF in each year from 2008 through 2013. While it is true that in some years the fund balance has declined, it is also true that the department has consistently misjudged the amount of activity and repayments. The justification for recent general fund infusions has been the projections that the fund would soon be close to depletion. However, the exhibit demonstrates how these projections and, therefore, the justifications for additional general funds, are questionable.

The department is often required to commit funds to a project very early in the project stage. This provides the business with some level of financial comfort before it proceeds with its financial outlay. However, in some cases, the project fails to move forward, and funds remain in the MEDAAF. The department consistently underestimates these canceled funds. In fiscal 2013, the department estimated that \$1.0 million in committed funds would be canceled. In fact, there were \$6.1 million in canceled encumbrances or rescissions in that year. Loan repayments are also consistently underestimated. In fiscal 2013, the department expected \$3.0 million in repayments. However, the fund received almost \$7.4 million. As shown in **Exhibit 6**, with the amount of canceled funds and repaid funds, the MEDAAF almost replenished itself to the point of funding its new projects in fiscal 2013.

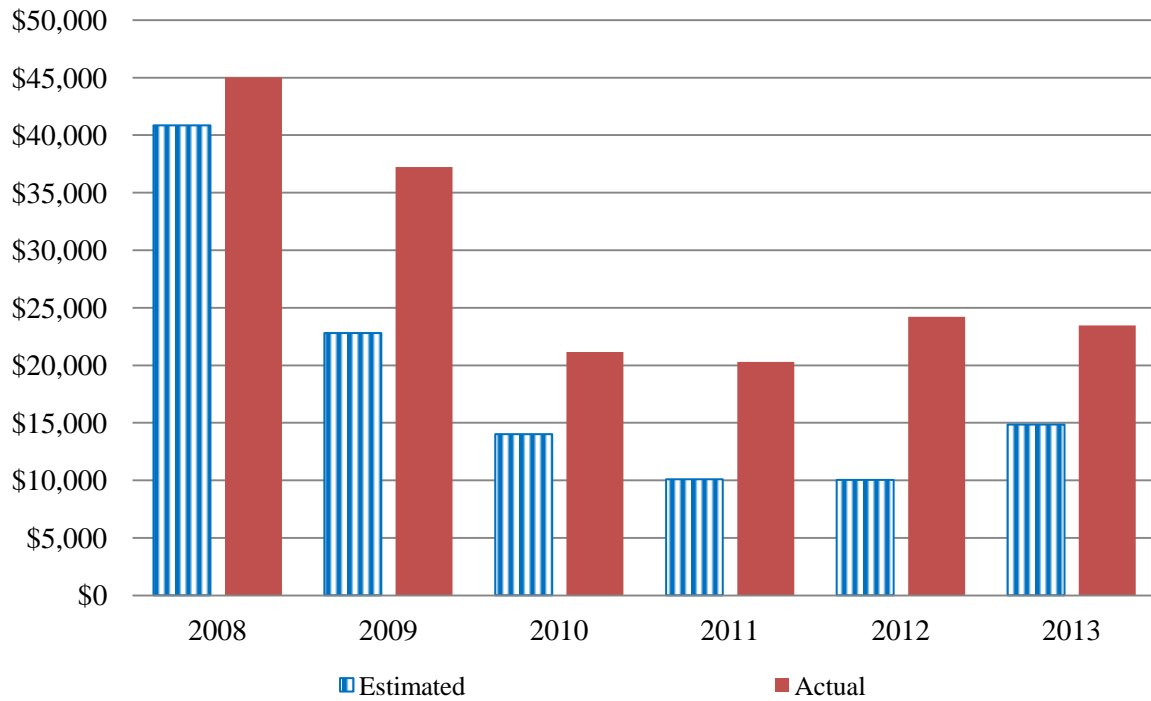
Exhibit 4
Maryland Economic Development Assistance and Authority Fund
Fund Balance Worksheet
Fiscal 2012-2015
(\$ in Thousands)

	Actual <u>2012</u>	Actual <u>2013</u>	Est. <u>2014</u>	Est. <u>2015</u>
Beginning Balance	\$20,293	\$23,476	\$23,468	\$13,311
Revenues				
General Funds	\$4,500	\$4,500	\$773	\$8,923
Investment Income	480	423	2,142	1295
Interest Income	1,310	699	424	388
Loan Repayments	6,876	7,369	5,375	5916
Loan Recoveries and Grant Repayments	644	762	348	553
Cancelled Prior Year Encumbrances	3,559	6,131	3,500	3000
Brownsfield Local Property Tax Cont.	1,698	0	320	529
Other Income	1,088	304	841	329
Total Revenues	\$20,155	\$20,188	\$13,723	\$20,933
Total Funds Available	\$40,448	\$43,664	\$37,191	\$34,244
Expenditures				
Encumbrances/Approval Activity – Other	\$11,801	\$15,000	\$20,000	\$20,000
Rescissions of New Approvals	0	0	0	0
Operating Expenses	502	488	629	656
Indirect Expenses	4,686	4,743	2,751	\$2,783
Transfers to Rural Broadband Fund	0	0	0	0
Transfer to Nano-biotechnology Fund	0	0	0	0
Restricted Appropriation	0	0	500	0
Prior Period Operating/Indirect Adjustment	-17	-35	0	0
Total Expenditures	\$16,972	\$20,196	\$23,880	\$23,439
Ending Balance	\$23,476	\$23,468	\$13,311	\$10,805

Note: Numbers may not sum to total due to rounding.

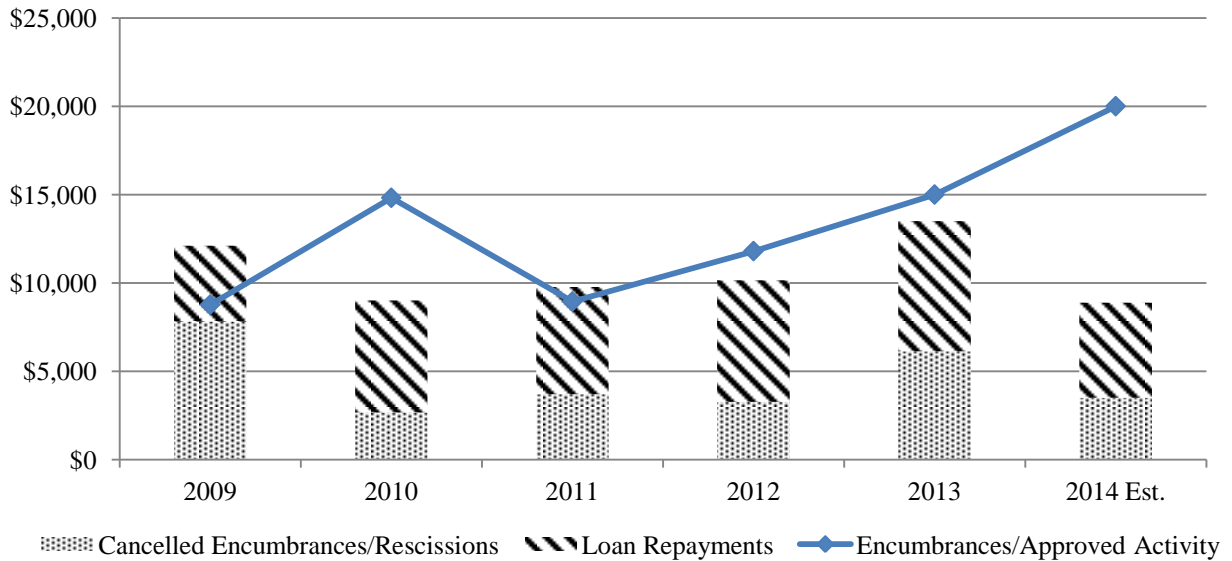
Source: Governor’s Budget Books, Fiscal 2014

Exhibit 5
Maryland Economic Development Assistance Authority and Fund
Fund Balances – Estimates vs. Actual
Fiscal 2008-2013



Source: Governor's Budget Books, Fiscal 2010-2015

**Exhibit 6
MEDAAF Encumbrances and Repayments
Fiscal 2009-2014
(In Thousands)**



MEDAAF: Maryland Economic Development Assistance Authority and Fund

Source: Department of Business and Economic Development

As mentioned prior, the Administration withdrew \$500,000 from MEDAAF in fiscal 2014 instead of using those funds for TEDCO’s Rural Business Initiative as instructed by budget language in the fiscal 2014 budget bill. Instead, DBM advises that the MEDAAF allowance for fiscal 2015 includes an additional \$500,000 to be used for rural businesses. However, it should be noted that there is nothing in the statute or in budget language that restricts these funds to rural business assistance. It is also counter to the intent of the budget language that sought to increase funding specifically for TEDCO’s rural business program.

Maryland Enterprise Fund

The fiscal 2015 allowance for the Enterprise Fund is \$29.9 million in special funds, reflecting the final year of funding under the InvestMaryland Program. This represents a decrease in total funding of about \$7.2 million, due to the one-time infusion of federal funds in fiscal 2014. The fiscal 2014 appropriation included federal funds under the U.S. State Small Business Credit Initiative. This federal program was designed to utilize existing state economic development programs to

increase the capital available to small business. InvestMaryland and the Enterprise Fund are discussed further under the Issues section of this analysis.

Maryland Small Business Development Financing Authority

The fiscal 2015 allowance shows a decrease in funding of \$4.3 million for the MSBDFA. This is due to a one-time infusion of federal funds in fiscal 2014 for the U.S. State Small Business Credit Initiative. These funds were for the authority's Long-Term Guaranty Program. Typically, the program provides funds to small businesses that have difficulty obtaining traditional financing. The department reports that about \$1.0 million of these federal funds have been committed and that several other projects are in the pipeline. Absent the decline in federal funds, MSBDFA funding remains flat in fiscal 2015.

Tax Credits

The fiscal 2015 allowance includes an increase of \$1 million for the CyberMaryland Investment Tax Credit Program for a total of \$4 million. Fiscal 2014 was the first year of the program that has been described as "confusing." At a December 2013 cyber forum, potential applicants expressed uncertainty about who was eligible or how to apply. The confusion may arise, in part, because the credit differs from the department's popular Biotechnology Investment tax credit. The biotechnology tax credit offers a credit *to the investor* to invest in a company. The new cyber tax credit offers the credit *to the company* for a qualified investment. As of early January 2014, only two applications have been received by the department.

The allowance also includes an increase of \$2 million for the Biotechnology Investment Tax Credit Program for a total of \$12 million in general funds. This program was funded as of July 1, 2006, and each subsequent year through fiscal 2010 in the amount of \$6 million. Funding was increased to \$8 million in fiscal 2011 and again to \$10 million in fiscal 2014. The BRFA of 2014 includes a provision that transfers \$650,000 from the Biotechnology Investment Tax Credit Reserve fund. This amount represents the fund balance at the end of fiscal 2013 based on a few certified credits that failed to materialize. This transfer does not affect the amount of funding available in fiscal 2014 or the fiscal 2015 allowance. This program is discussed in further detail under the Issues section of this analysis.

Although the department's film industry incentive is no longer accounted for as an appropriation in the budget, the department is still responsible for awarding the incentive each year. Chapter 516 of 2011 converted the budgeted Film Production Rebate program into a tax credit program. The tax credit was capped at \$7.5 million per year in fiscal 2012 and 2013. Chapter 28 of 2013 increased that cap to \$25.0 million in fiscal 2014 to accommodate the productions of several film projects. The Administration's budget plan assumes that another \$3.5 million in revenue would be dedicated to this program in fiscal 2015. It is assumed that legislation will be introduced to increase the cap based on expected film projects in the State.

Small, Minority, and Women-Owned Business Account

Statute requires that 1.5% of the proceeds of video lottery terminals (VLT) at authorized locations across the State be deposited in the Small, Minority, and Women-Owned Business Account (SMWOBA). The account is designed to provide capital investments and loans for small, minority, and women-owned businesses that are primarily located in areas of the State with gaming facilities. The fiscal 2015 allowance includes \$11.1 million in special funds for the program, reflecting the latest estimates of VLT revenue. This represents a \$2.0 million increase over the amount budgeted in fiscal 2014.

Though the program began to accrue revenues in fiscal 2011, a slow implementation led to a delay of several years before the program became operational. However, in April 2013, the Board of Public Works (BPW) approved the distribution of \$7.9 million of program funds to three fund managers who will be responsible for making the program's investments. To date, the fund managers have since awarded about \$4.6 million to 48 projects. Additionally, it should be noted, that in December 2013, the Office of Legislative Audits issued a performance audit of the program and found that proper accountability has been established over the program.

Other

The fiscal 2015 allowance shows a decrease of \$700,000 in special funds under the Maryland Economic Adjustment Fund (MEAF) program. One-time funds were available in fiscal 2014 from the program's fund balance. This program was originally established to provide loans to new or existing companies in communities suffering from dislocation due to defense adjustments. The program parameters have since expanded. Recipient companies do not have to show that they have suffered as a result of declining defense spending, only that they are located in an area suffering from defense adjustments. The MEAF program has not been utilized in recent years due to a lack of appropriations and a reduced fund balance. However, recent repayments and recoveries have replenished the available funds for the program. Additionally, the U.S. Economic Development Administration, which originally capitalized the program, has informed the department that the fund balance is subject to federal sequestration policies if not expended. In fiscal 2014, the department plans to use the funds to provide working capital loans at favorable terms to small and early-stage cyber security companies that are located in areas affected by defense adjustments.

The fiscal 2015 allowance includes funds in 2014 and 2015 for the Maryland Not-for-Profit Development Center Fund. Chapter 313 of 2008 created the program, which is designed to provide training and technical assistance grants to nonprofit organizations. The program is funded by a \$50 processing fee on articles of incorporation filed by nonstock corporations. Funding was provided in the fiscal 2012 allowance; however, the cost containment effort deleted the funds and transferred the proceeds to the general fund. Although the program has never been funded, the fees have been accruing to the fund since fiscal 2012. The BRFA of 2014 includes a provision that would allow this fund to be used by the Department of General Services to evaluate the participation of not-for-profit entities in State procurement. The department is currently preparing a request for proposals to select a contractor to manage the program.

Tourism, Film, and the Arts

Maryland Tourism Development Board

The Maryland Tourism Development Board is charged with implementing State tourism marketing and development programs, in part, through grants to local and nonprofit tourism organizations. The statute mandates that the budget, as introduced, must include \$6.0 million in general funds for the board. The fiscal 2015 allowance includes \$10.5 million in general funds, an increase of \$1.0 million. A significant portion of this surplus above the mandate relates to tourism activities around the bicentennial of the War of 1812, and specifically, the Battle of Baltimore, which took place in 1814. Other events include a 10-day festival that will highlight the tall ships, the Blue Angels, and a large fireworks display. Over four years, funding for the bicentennial celebrations totaled close to \$10.0 million (including federal funds).

The fiscal 2015 allowance for the board also reflects the loss of one-time federal funds in fiscal 2014. This funding was passed through to the nonprofit arm of the Maryland War of 1812 Bicentennial Commission created by an executive order of the Governor. The funding was derived from a surcharge on the sale of the Star Spangled Banner Commemorative Coin as authorized by federal law.

Maryland State Arts Council

By statutory mandate, general funds allocated to the Maryland State Arts Council are required each year to increase by the expected percentage of growth in general fund revenues. In fiscal 2015, the expected growth is 5.1%, and general funds under the arts council increase accordingly (\$785,452). However, a small loss of federal funds results in an increase of about \$628,000 for the council in fiscal 2015, which is a 3.8% increase. The increase is also mitigated by some savings in contractual services for web development and grants management.

Preservation of Cultural Arts

The Special Fund for the Preservation of Cultural Arts in Maryland is a special fund within the department that was designed to provide emergency grants for cultural arts organizations that are in danger of closing. It is funded by a portion of the admissions and amusement tax on electronic bingo machines in certain counties. The BRFA's of the last several years have diverted funding from the fund for cost containment and other budgetary purposes. The fund was never used for its intended purpose. The fiscal 2015 allowance includes a fiscal 2014 deficiency of \$500,000 in special funds for the program and an additional \$2 million in fiscal 2015 for the program.

Issues

1. Report on the Distribution of the Maryland Biotechnology Investment Tax Credit

Narrative was included in the 2013 *Joint Chairmen's Report* (JCR) that directed the department to examine its administration and distribution of the Maryland Biotechnology Investment Tax Credit. Members of the budget committees had some concerns about the inequitable distribution of the credit. The narrative reads as follows:

Report on the Distribution of the Maryland Biotechnology Investment Tax Credit: The Department of Business and Economic Development (DBED) administers the Maryland Biotechnology Investment Tax Credit program that provides tax credits to investors in Maryland Qualified Biotechnology Companies. The budget committees understand that the budgeted funds for the tax credits are awarded on an online first-come, first-served basis. However, the budget committees are concerned that there appears to be inequity in the distribution of the tax credits. In tax year 2012, investors in five companies received 60% of the program's credits. Conversely, new recipients accounted for only 12.7% of the credits awarded.

The budget committees request that DBED submit a report describing its process for awarding tax credits under the program. Specifically, the report should address the reasons for the skewed allocation of the credits, including any possible impediments that prevent a wider distribution of the credits. Further the report should include any recommendations for changes in the program, either statutory or administrative, that would remove those impediments so that a greater number of qualified biotechnology companies may benefit from the program. The department should submit its report by December 1, 2013.

The department submitted its report to the budget committees on November 15, 2013. According to the report, there are more than 500 bioscience companies in the State. Since its inception in 2007, 62 companies have benefited from the tax credit. The credit is equal to 50% of an eligible investment (up to \$250,000) in a qualified Maryland biotechnology company (QMBC). It is designed to attract investment in seed and early-stage, privately held biotechnology companies.

Certification Process

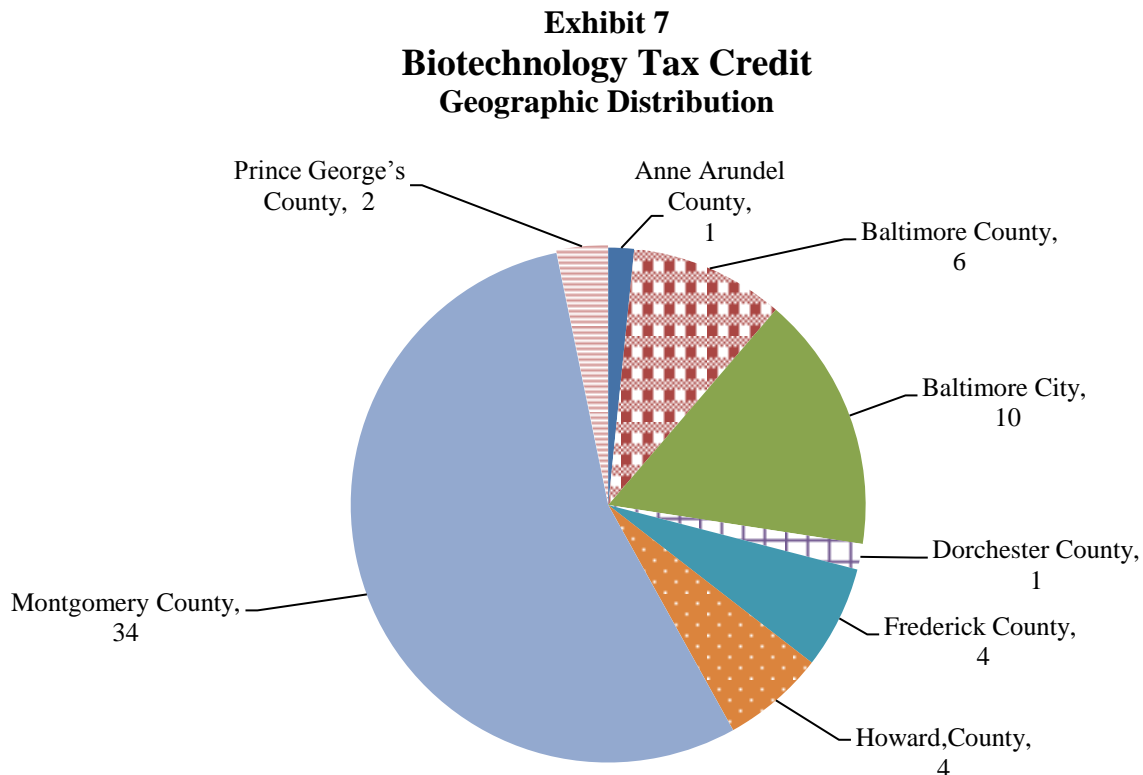
The credit is awarded on a first-come, first-serve basis. Its funding is limited to the amount appropriated in each fiscal year. The department reports that the credit is nondiscretionary and that it does not have any authority to score the applicants based on any factors such as market success or future viability. Therefore, the department's responsibility is limited to confirming that the company qualifies for the credit, which includes a legal and accounting review and a scientific review by the BioMaryland Center. The department also ensures that the company is located in the State, has fewer than 50 employees, is in active business no longer than 10 years, and is engaged in biotechnology.

The investor has 30 days from the date of the initial certification to make the investment in the qualified company and an additional 10 days to provide the proof of the investment.

Distribution of the Credit

The 2013 JCR narrative raised the concern that the distribution of the credit is not equitable. Based on the data provided in the report, it does appear that some companies are disproportionately benefiting from the credit. The maximum total credits that investors in a single QMBC may receive has increased from \$900,000 in fiscal 2009 to \$1.5 million in fiscal 2014, an increase of 67.0%. In tax year 2012, investors in five companies received 60.0% of the program’s total credits. The department explains that some of these companies have participated in the program every year and have become successful at attracting investors. Companies new to the program are not as well versed in the process. In tax year 2012, new recipients accounted for only 12.7% of the credits awarded.

The geographic distribution of the credit also appears to be skewed. It is true, however, that the I-270 corridor in Montgomery County, and to some extent Frederick County, has a greater preponderance of biotechnology companies. **Exhibit 7** shows the geographic distribution of the credits over the life of the program.



Source: Department of Business and Economic Development

Report Recommendations

The department identified several potential reasons that some companies are benefiting from the credit more than others. The credit is awarded on a first-come, first-served basis, and the department does not score the applicants on any other variable. Some companies have gained the expertise required to benefit from this process. Additionally, there is no lifetime limit on the program. This allows the most experienced companies to continue to benefit, often at the expense of newer or early-stage companies, the very companies the program was intended to assist.

The department also contends that companies have a perception that the credit is too limited. Between fiscal 2007 and 2013, the department received 1,576 applications but was only able to award a small percentage. This may discourage applications. Additionally, the department reports that the manner in which it qualifies businesses may be problematic. The department makes the determination that a business is a QMBC at the same time that it reviews that investor application. It is possible that companies may be reluctant to attract investors before it is assured that it has qualified for the designation as a QMBC.

The report has identified several administrative and legislative changes to improve how the credit is allocated. The department states that it will immediately make the administrative changes. It plans to enhance its marketing efforts. The department already has an outreach effort for the program. It publicizes the credit through networking events, presentations, speeches, and through the BioMaryland Center. To enhance current efforts, it will begin to publicize, verbally and electronically, the amount of credits remaining after each cycle of investment approvals – about every 60 days. Secondly, the department will begin to pre-qualify companies so that they may recruit investors with more ease.

On the legislative side, the report suggests that a maximum lifetime credit of \$7.0 million per QMBC should be implemented. This will allow more experienced companies to drop out of the credit pool earlier, leaving room for newer companies. Similarly, the report suggests that the statute be changed to limit the annual aggregate tax credit that a single QMBC may receive to no more than \$1.5 million. Currently, the maximum limit is 15% of the total appropriation. This change would allow the funding in the program to grow without expanding the limit for each company.

Conclusion

The department concludes that the Biotechnology Investment Tax Credit is a highly successful program and a “key industry incentive which supports Maryland’s robust Biotechnology industry.” Since its inception, the program has certified \$47.3 million in tax credits for 62 companies. The department reports that this investment has leveraged over \$95.0 million in private investments. However, the value of the credit is equal to 50% of an eligible investment made in a qualified biotechnology business during the taxable year, up to a maximum of \$250,000. So, it appears that the private investment does not exceed the minimum amount to have earned the credit.

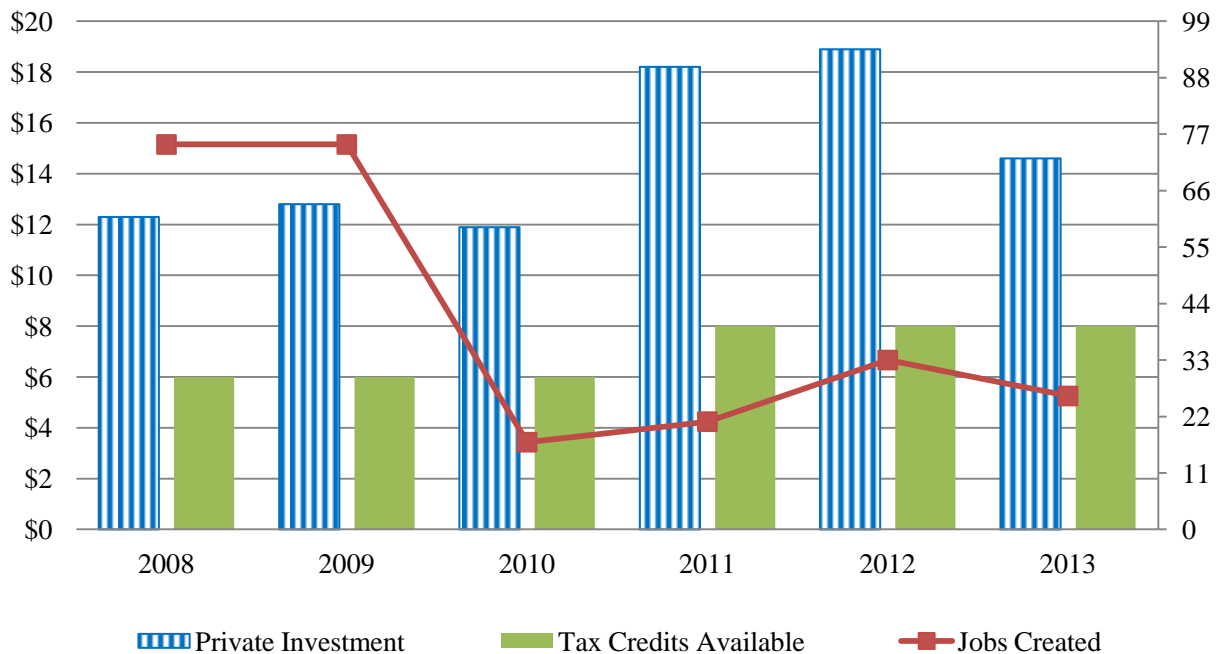
Despite the popularity of the program, it does not appear that the tax credit has helped to spur many direct jobs. According to the department’s Managing for Results submission, in 2013, for the

\$8 million in appropriation for the credit, qualified companies created 26 jobs. That equates to over \$307,000 in State investment per job. **Exhibit 8** shows the history of job creation under the credit. The department advises that job performance is not a precondition for selection or approval of qualified investors or companies. The goal of the program is not job creation but to stimulate the growth of a strategic industry sector.

It should be mentioned that the tax credit will be subject to the Tax Credit Evaluation Act in 2016. Any legislative changes (proposed or realized) resulting from this report will likely be reviewed through the evaluation process.

The Department of Legislative Services (DLS) recommends that the department comment on the distribution of the biotechnology investment incentive tax credit and on the status of administrative and legislative changes that it plans to pursue to address any distribution inequity.

Exhibit 8
Selected Performance Measures
Biotechnology Tax Credit
Fiscal 2008-2013
(\$ in Millions)



Source: Governor’s Budget Books, Fiscal 2010-2015

2. Third and Final Year of Original InvestMaryland Funding

Chapter 409 of 2011 was enacted to create the InvestMaryland Program. This legislation created a State-supported venture capital program and also increased funding for the department's Enterprise Fund and MSBDFA. These programs were funded through an auction of a tax credit against the insurance premium tax for insurance companies. The Maryland Venture Fund Authority oversees the program.

Of the auction proceeds, 24.75% was retained by the department's Enterprise Fund, 67.0% was distributed to eligible private venture firms, and 8.25% was distributed to MSBDFA. The legislation specifies the type of business that is eligible to receive assistance under the new program. At the time of the first investment, a business must (1) have its principal business operations in the State; (2) agree to use the investment primarily to establish or support business operations in the State; (3) have no more than 250 employees; and (4) not be primarily engaged in retail sales; real estate development; the business of insurance, banking, or lending; or professional services by accountants, attorneys, or physicians.

Progress of InvestMaryland Investments

The department contracted with a consultant to identify qualifying private venture firms. The consultant was responsible for receiving and reviewing applications, conducting due diligence, developing an investment strategy consistent with statutory requirements, and presenting a recommended list of venture firms for final approval. There were 37 firms that applied for the investment. In December 2012, the Maryland Venture Fund Authority approved its first private venture partner. Since that time, an additional 6 firms have been approved for an investment amount of \$49.3 million. Currently, 1 additional firm is awaiting final approval. To the extent that the early-stage companies post positive returns, the venture firms will return the principal to the State as well as 80% of the profits. Additionally, the firms must commit to investing in qualified Maryland businesses in an amount equal to the State's investment commitment in that firm.

The department announced in September 2012 that it has made its first award from the State's share of InvestMaryland funds. Since then, the department announced a total of 20 awards. To date, approximately \$14.5 million has been committed. According to the department, these companies have created or retained 1,115 Maryland jobs with average annual wages of over \$75,000. The department also created the InvestMaryland Challenge program. Fiscal 2015 is the third year of the program. It is designed as a \$300,000 competitive grant contest that would spur interest and develop a pipeline for the original InvestMaryland Program. The contest has three categories: IT, life sciences, and a general category. **Exhibit 9** shows the distribution of the InvestMaryland funds under the department's Enterprise program, including the challenge grant.

Exhibit 9
Enterprise Fund Activities
Fiscal 2013-2015
(\$ in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
InvestMaryland Challenge Grant	\$300	\$300	\$300
InvestMaryland – VC Investments	14,446	18,685	22,658
InvestMaryland – Direct Investments	10,349	6,930	6,930
SSBCI Activity	1,700	11,459	n/a
Total Incentives	\$26,795	\$37,374	\$29,888

SSBCI: State Small Business Credit Initiative.
VC: venture capital

Source: Department of Business and Economic Development

Additional Funding for the Enterprise Fund

In addition to the department’s share of the InvestMaryland funding, the Enterprise Fund also received funding from the federal State Small Business Credit Initiative. This federal program is designed to utilize existing state economic development programs to increase capital to small businesses. The Enterprise fund received the bulk of the available federal funds.

In fiscal 2013, the department was able to disburse about \$1.7 million under this program. There is a 10-to-1 private dollar leverage requirement on the funds; therefore, the department has had some difficulty in deploying the funds during the fiscal year.

However, the department has been able to complete 24 transactions to date, for a total commitment of over \$4.5 million.

DLS recommends that the department discuss the investments made thus far under the InvestMaryland Program, how it has spurred job creation and the development of early-stage companies, and how the program will proceed without the influx of additional tax auction proceeds.

3. Tax Credit Evaluation Act – One Maryland and Enterprise Zone

Since the mid-1990s, the number of State business tax credits has grown exponentially, as have related concerns about the actual benefits and costs of many of these credits. Although tax credits comprise a small percentage of total income tax revenues, the number and amount of credits claimed have significantly increased over time.

In response to concerns about the fiscal impact of tax credits on State finances, Chapters 568 and 569 of 2012, the Tax Credit Evaluation Act, established a legislative process for evaluating certain tax credits. The evaluation process is conducted by a legislative evaluation committee that is appointed by the President of the Senate and the Speaker of the House of Delegates. The Act requires that the One Maryland economic development credit and the Enterprise Zone tax credit be evaluated by the committee by July 1, 2014. To assist the committee in its work, DLS evaluated the credits on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

One Maryland Tax Credit

Chapter 303 of 1999 established the One Maryland economic development tax credit, designed to assist in paying for both project expansion and start-up costs for certain businesses that add at least 25 qualified employees in distressed counties. The legislation established that DBED is required to administer the credit. To qualify, a business must be primarily engaged in a qualifying activity, such as manufacturing, or operate either a central administrative office or a company headquarters (other than the headquarters of a professional sports team). A project must be in a qualified distressed county and in a priority funding area (PFA) to qualify. To qualify as a distressed county, a county must have:

- an average unemployment rate that exceeded the State’s average during the preceding 24-month period by either 2 percentage points or 150%; or
- a per capita personal income that may not exceed 67% of the State’s average during the preceding 24-month period.

As of September 2013, the following are considered as qualified distressed jurisdictions: Allegany, Caroline, Dorchester, Somerset, Washington, and Worcester counties and Baltimore City.

A business that establishes or expands a business facility in a PFA and is located in a qualified distressed county may be entitled to tax credits for costs related to the new or expanded facility. The credit for start-up costs is the lesser of 100% of eligible start-up costs (up to \$500,000), less any credits taken in prior years, or \$10,000 multiplied by the number of employees that have filled the newly created, qualified positions. The credit for project costs is the lesser of 100% of eligible

project costs (up to \$5 million), less any credits taken in prior years, or the State income tax liability for the taxable year from the project.

Credits may be carried forward up to 14 successive tax years. The program specifies that the credits may be claimed against certain income and taxes in each year and provides for the refundability of the credit in certain circumstances. Credit regulations require a business entity to maintain at least 25 qualified employees at the project to carry over a tax credit from the preceding year. However, Chapter 715 of 2012 provided that a business may claim a prorated share of the credit if it maintained at least 10 positions in the current year and has maintained at least 25 positions for at least five years.

Recommendations

Based on the information uncovered in the evaluation, DLS made several recommendations for changes to the program. The evaluation found that there is significant variation in the effectiveness of the One Maryland credit. Project outcomes showed a wide range of jobs created, wages paid, and cost-effectiveness despite the amount of incentive. Further, the report found that new jobs were often double or triple counted if a project received more than one economic development incentive. As such, the evaluation report recommended that the department propose statutory changes that would allow for targeted incentives that are commensurate with the expected economic impact of the project. Further, the department should establish better evaluation criteria for the projects.

The report also concluded that since there is no annual aggregate limitation on the program, the future fiscal impact of the credit is uncertain and potentially significant. The report suggests that the program be capped and that DBED provide notices to businesses and to the Comptroller's office when credits expire. It was also noted that there are some difficulties in evaluating the credit due to lack of data. The report recommended that DBED improve its reporting process to the General Assembly and to the Comptroller's office. Finally, businesses should be required to report to DBED annually on the amount of credit claimed in the most recent taxable year.

Enterprise Zone Tax Credit

Chapter 789 of 1981 authorized the establishment of enterprise zones in Maryland to encourage businesses to locate in economically distressed areas and to hire residents from those areas. The statute established enterprise zone eligibility criteria and provided for special property tax and income tax credits for eligible businesses located in enterprise zones. As of September 2013, there are 30 enterprise zones in 12 counties and Baltimore City.

Businesses located or locating in an enterprise zone may receive a 10-year property tax credit against local real property taxes. The amount of the property tax credit is based on a specified percentage of assessment increases resulting from the value of real property improvements. There are two types of income tax credits for firms located within an enterprise zone: a general income tax credit and a larger income tax credit for hiring economically disadvantaged employees.

Recommendations

The department is responsible for certifying the zone. Local administrators and the State Department of Assessments and Taxation have much of the responsibility for the administration of the credit. Nonetheless, the tax credit evaluation report made some recommendations that affect the department given the department's statewide role of encouraging job creation and economic advancement. Specifically, the report notes that zones are not effective in creating jobs for those people who reside in the zones. The report recommends that DBED propose methods so that job training programs are better coordinated with the enterprise zone program. Additionally, the report points out that the underperformance of the zones may be due to the growing prevalence of zone expansions. The report suggests that DBED pursue changes to the evaluation criteria before an enterprise zone may be expanded. DBED should also consider whether a cap on the maximum amount of State reimbursements should be imposed.

DLS recommends that the department briefly respond to the recommendations and any steps it has taken to improve the administration of the credit programs.

4. Impact of Trade Missions

In December 2013, members of the Administration, including the Governor and four DBED staff members, traveled to Brazil and El Salvador on a nine-day trade mission that was designed to strengthen economic and cultural ties. Included in the travel delegation were representatives from 30 Maryland businesses, State universities, and local government officials. The goal of the trip was to help Maryland companies to increase their presence abroad and to encourage foreign investment in Maryland.

According to departmental and press reports, several business relationships were formed. For example, it was announced on the trip that a Brazilian pharmaceutical company is opening its United States headquarters in Montgomery County and investing \$200 million in the facility. The Administration reported that non-economic partnerships were also established. In El Salvador, the Administration formalized a partnership between the Baltimore/Washington International Thurgood Marshall Airport and the El Salvador International Airport that is designed to enhance information sharing including best practices on airport operations and security.

It should be noted that the fiscal 2015 allowance includes over \$719,000 in travel expenses for the department. This represents an increase of close to \$24,000. Of this total amount, about \$39,000 is specifically allocated to the Office of the Secretary. The department's travel budget includes allotments for routine travel and annual conferences. There is also an increase in the fiscal 2015 allowance (\$213,800) to be used, in part, to enhance the department's presence at international trade shows, notably the Paris Air Show.

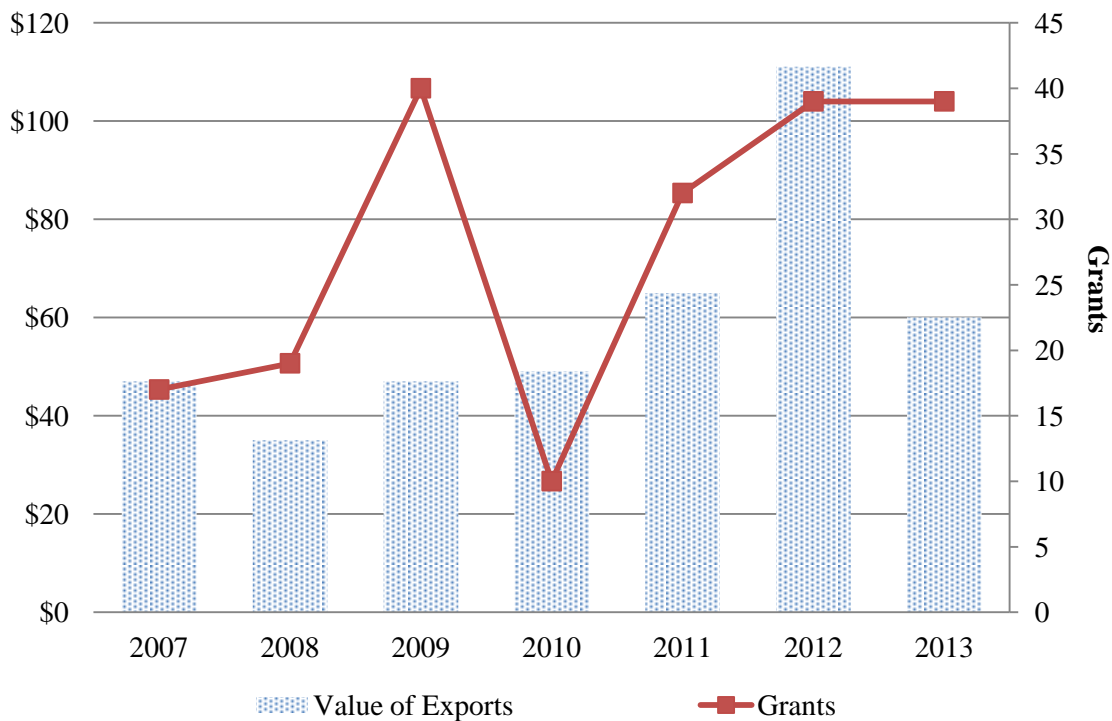
Facilitating the trade mission was the department's Office of International Trade and Investment. The office aims to promote the export efforts of Maryland businesses and to increase the dollar value of international sales transactions. The office has 11 overseas offices, 8 of which are

funded by contingency contracts. The contractors in those offices only receive payment if they succeed in increasing foreign trade.

Another means to encourage international trade is the office’s ExportMD program. This program provides \$5,000 grants to Maryland companies to reimburse expenses associated with international marketing efforts. Such expenses include market research, trade show fees, translation of brochures, airfare, and website development. The department then tracks the value of private sector export sales that result from departmental assistance under the program.

Exhibit 10 shows the value of the private sector sales from participating Maryland companies as compared to the number of grants awarded under the ExportMD program. The number of grants rebounded in fiscal 2011 with a commensurate increase in export value in fiscal 2012.

Exhibit 10
Office of International Trade and Investment
Selected Performance Measures
Fiscal 2007-2013
(\$ in Millions)



Source: Governor’s Budget Books: Fiscal 2010-2015

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The fiscal 2015 allowance, however, reflects a decline in available grants (\$105,000) due to the loss of federal funds under the State Trade and Export Promotion Program. An increase in general funds to the program partially mitigates the loss of these funds. The program totals about \$292,000 in fiscal 2015.

The department attributes a portion of the increase of export value in fiscal 2012 to the trade missions taken by the Administration to China and India. As a result of that mission, two Maryland companies reported significant sales to China in 2012 (\$35 million combined). Total Maryland exports were valued at about \$11.7 billion in fiscal 2012.

DLS recommends that the department comment on the value of international trade missions and on how its Office of International Trade and Investment facilitates the growth of Maryland businesses.

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete the grant that is earmarked for the National Center for the Veteran Institute for Procurement. The department already provides forums, workshops, and other events to train, educate and otherwise inform Maryland business owners on how to navigate government contracts. Furthermore, the national center’s training sessions are not limited to Maryland veteran business owners. In fact, its most recent training session claimed business executives from 11 states.	\$ 150,000	GF	
2. Delete a business development position that has been vacant since 2011.	92,796	GF	1.0
3. Delete the increase in the Maryland Biotechnology Investment Tax Credit program. Though popular with investors, the tax credit program has not been efficient in spurring job creation in the biotechnology sector. In fiscal 2013, the qualified Maryland biotechnology companies that participated in the tax credit program created 26 jobs; a state investment of over \$307,000 per job.	2,000,000	GF	
4. Delete the increase in the CyberMaryland Investment Tax Credit program. Fiscal 2014 marks the first year of the program. As of early January 2014, only two applications have been submitted to the department. There is no indication that an increase in funding is warranted at this early stage.	1,000,000	GF	
5. Delete the general funds under the Maryland Economic Development Assistance Authority and Fund. This action would leave \$19.1 million in special funds for business assistance in fiscal 2015. To the extent that the department exhausts the appropriated special funds, it may submit a budget amendment to appropriate further special funds from its fund balance. According to the department’s fund balance worksheet, it expects to have a fund balance	8,923,234	GF	

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of \$10.8 million at the end of fiscal 2015. This action would leave an expected \$1.9 million in the fund. However, the department consistently underestimates this balance.

6.	Reduce general funds for grants under the Maryland Tourism Development Board. This reduction will still leave \$2 million in excess of the legislative mandate to be used to fund celebrations related to the anniversaries of the Star Spangled Banner and the Battle of Baltimore.	2,500,000	GF	
	Total General Fund Reductions	\$ 14,666,030		1.0

Updates

1. Central Business Licensing System

As part of an effort to make it easier for businesses to interact with State government, the department initiated the Central Business Licensing (CBL) System. The CBL project was originally designed to create a centralized, online system for all business licenses and permits. The CBL would eventually provide businesses with a one-stop shop to complete and submit various applications and permits regardless of agency or type of business.

The system was intended to consolidate information from over 400 State programs that issue permits, licenses, registrations, certifications, or other types of State approval to conduct business. The department identified 22 State departments or offices that have some stake in the project and some involvement in allowing businesses to operate in the State. In the effort to design the project, the department has procured consulting services and has formed an executive steering committee comprised of representatives from seven State agencies. The consultant conducted surveys and interviews with the various stakeholder agencies.

The solution, as determined by the department, in consultation with the Department of IT is a self-funded e-government portal. In August 2011, BPW approved a master contract with an application developer to develop websites, online services, and secure payment processing applications for State permits and licenses. The State is not charged for this service; the developer generates revenues by charging convenience fees and pooling these revenues to support other applications.

The scale of the project has been significantly scaled back as the department has encountered various technical and logistical difficulties with the system. In January 2013, the system began accepting applications to register a business and form the legal business entity, register a trade name, and establish tax accounts. The types of business that may register with the system include sole proprietorships, general partnerships, limited liability companies, stock corporations, tax-exempt nonstock corporations, and close corporations. Although the department is publicizing the new system and working with the relevant State agencies, the percentage of registrations that could use the system is relatively low. Only 13% of new company registrations, trade names, or tax accounts have come through the system.

The department still intends to expand the type of licenses, registrations, and permits that is included in the CBL. However, the timing of the expansion and the types of licenses have yet to be determined.

2. Major Grants

The department awarded \$21.7 million in grants in fiscal 2013, as shown in **Exhibit 11**. The exhibit also shows that another \$28.7 million is expected to be distributed as grants in fiscal 2014. A decrease in grants is budgeted for fiscal 2015.

Exhibit 11 Summary of Major Grants Fiscal 2013-2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Office of the Secretary			
<i>Maryland Biotechnology Center</i>			
New Biotech Grant Assistance	\$1,526,450	\$1,682,487	\$1,726,450
<i>Subtotal</i>	<i>\$1,526,450</i>	<i>\$1,682,487</i>	<i>\$1,726,450</i>
Division of Business and Enterprise Development			
<i>Office of International Trade and Development</i>			
Maryland Israel Development Corporation	\$248,923	\$275,000	\$275,000
World Trade Center Institute	274,962	275,000	275,000
Export Maryland – Small Business Foreign Trade Grants	249,694	399,131	292,712
<i>Military/Federal and BRAC Assistance</i>			
Southern Maryland Navy Alliance	26,334	26,334	26,334
Army Alliance	26,333	26,333	26,333
Montgomery County – White Oak	15,333	15,333	15,333
Fort Meade Alliance	26,334	26,334	26,334
Fort Dietrick Alliance	21,583	21,583	21,583
Maryland Maritime Alliance	28,833	28,833	28,833
Indian Head Alliance	21,583	21,583	21,583
Andrews Air Force Base, Business Roundtable of Prince George’s County	52,666	26,333	26,333
Indian Head Alliance Statewide BRAC Support	41,334	41,334	41,334
MDOT – Office of Economic Adjustment pass-through		75,910	
<i>Workforce Development and Coordination</i>			
Partnership for Workforce Quality	113,664	125,000	100,000
Governor’s Workforce Investment Board	26,635	25,624	25,624
<i>Small Business</i>			
Small Business Development Center/University of Maryland – PTAP	135,000	140,000	150,000
University of Maryland – SBDC	85,400	85,400	85,400

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	<u>2013</u>	<u>2014</u>	<u>2015</u>
<i>Community Development</i>			
Appalachian Regional Commission	14,688	15,270	15,270
Tri-county Council of Western Maryland	150,000	150,000	150,000
Tri-county Council of Southern Maryland	150,000	150,000	150,000
Mid-shore Regional Council	150,000	150,000	150,000
Tri-county Council Lower Shore	150,000	150,000	150,000
Upper Shore Regional Council	150,000	150,000	150,000
Hagerstown Downtown Planning		100,000	
<i>Technology Development</i>			
Technology Council of Maryland	62,000	62,000	62,000
Greater Baltimore Technology Council	62,000	62,000	62,000
Manufacturing Extension Partnership	250,000	250,000	250,000
Chesapeake Crescent		25,000	25,000
Other/TBD	35,000	31,666	12,000
Cyber-security Industry Support		550,000	550,000
Economic Alliance of Greater Baltimore	57,000	62,333	62,333
Patuxent Partnership – Unmanned Aerial Systems	500,000		
Innovation Portal Collaboration with TEDCO		150,000	
Salisbury State University/GeoDash		72,962	
Lower Eastern Shore Regional Council (Feasibility Study)	50,000		
<i>Subtotal</i>	<i>\$3,175,299</i>	<i>\$3,766,296</i>	<i>\$3,226,339</i>
Division of Tourism, Film, and the Arts			
<i>Tourism</i>			
Star Spangled 200, Inc.		\$22,5000	
Maryland Tourism Education Foundation	\$30,000	30,000	\$30,000
Maryland Tourism Council	35,000	35,000	35,000
Charles County	225,000		
Maryland Historical Society	200,000	165,000	
Baltimore City	450,000		
Anacostia Trails Heritage Area, Inc.	125,000		
Baltimore Heritage Area Association, Inc.	133,160		
Society for the Preservation of Federal Hill and Fells Point	42,721	107,279	
Star-Spangled Banner Flag House, Inc.		150,000	
Maryland Academy of Sciences		675,000	
Maryland Public Television	100,000	140,852	
Calvert County Chamber of Commerce		110,800	
The Creative Alliance		115,000	
Capital Region USA, Inc.	239,500	239,500	239,500
Baltimore Symphony Orchestra (BSO)		596,610	

T00 – Department of Business and Economic Development

	<u>2013</u>	<u>2014</u>	<u>2015</u>
War of 1812 Grants (Various Recipients)	734,119	3,375,344	2,000,000
County Cooperative Grants (Various Recipients)	2,500,000	2,750,000	2,750,000
<i>Subtotal – Tourism</i>	<i>\$4,814,500</i>	<i>\$8,843,385</i>	<i>\$5,054,500</i>
<i>Maryland State Arts Council Grants*</i>			
<i>Grants to Arts Organizations:</i>			
Academy Art Museum	\$73,418	\$94,409	\$96,779
Adventure Theatre	40,000	65,000	66,632
Arts Education in Maryland Schools Alliance	34,175	29,246	29,980
AFI Silver Theatre and Cultural Center	70,000	90,000	92,259
American Dance Institute, Inc.		30,000	30,753
American Visionary Art Museum, Inc.	141,534	164,000	168,116
Annapolis Symphony Orchestra	62,344	88,251	90,466
Avalon Foundation Inc.	84,000	107,844	110,551
Ballet Theatre of Maryland, Inc.	43,861	53,639	54,985
Baltimore Choral Arts Society	33,070	43,310	44,397
Baltimore Clayworks	63,925	80,987	83,020
BSO	1,572,296	1,796,746	1,841,844
Baltimore’s Festival of the Arts, Inc.	47,859	61,880	63,433
BlackRock Center for the Arts	39,161	50,390	51,655
Center Stage Associates, Inc.	430,082	489,657	501,947
City of Gaithersburg		32,000	32,803
City of Rockville	27,636		
Class Acts Arts, Inc.	79,110	81,825	83,879
Columbia Festival of the Arts	30,524	36,000	36,904
Common Ground on the Hill	32,000	38,592	39,561
Concert Artists of Baltimore		36,139	37,046
Creative Alliance	77,363	101,376	103,921
Everyman Theatre Inc.	100,641	139,543	143,046
Frostburg State University – Cultural Events Series	28,000	28,000	28,703
Glen Echo Park Partnership for Arts and Culture, Inc.	60,000	70,000	71,757
Hippodrome Foundations		200,000	
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	282,258	318,314	326,304
Jewish Community Center of Greater Washington		30,000	30,753
Jewish Museum of Maryland	55,844	68,000	69,707
Liz Lerman Dance Exchange	80,000	60,606	62,127
Maryland – National Capital Park and Planning	228,303	250,000	256,275
Maryland Art Place, Inc.	28,098	25,743	26,389
Maryland Classic Youth Orchestras, Inc.	27,556	35,888	36,789
Maryland Hall for the Creative Arts	106,000	107,304	109,997

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	<u>2013</u>	<u>2014</u>	<u>2015</u>
Maryland Historical Society	25,215		
Maryland Symphony Orchestra	82,261	83,098	85,184
Maryland – National Capital Park and Planning Commission, Area Operations	34,984	36,000	36,904
Metropolitan Center for Visual Arts (VisArts)		30,000	30,753
Modell Performing Arts Center at the Lyric	80,000	150,000	153,765
National Chamber Orchestra Society, Inc./ Natational Philharmonic	100,000	145,308	148,955
National Council for the Traditional Arts	50,803	56,609	58,030
Olney Theater Center for the Arts	185,000	200,000	205,020
Producer’s Club of Maryland – Maryland Film Festival		30,000	30,753
Pyramid Atlantic Art Center	32,000	28,000	28,703
Round House Theater, Inc.	189,433	222,085	227,659
Shriver Hall Concert Series	27,708	32,461	33,276
St. Mary’s College of Maryland Foundation – River Concert Series		27,488	28,178
Strathmore Hall Arts Center	488,298	579,432	593,976
The Baltimore Museum of Art	790,162	866,397	888,144
The Delaplaine Visual Arts Education Center	31,735	45,000	46,130
The Puppet Co.	30,950	40,827	41,852
The Walters Art Gallery	814,154	894,208	916,653
The Ward Museum of Wildfowl Art	57,111	71,908	73,713
The Writer’s Center	45,976	52,277	53,589
University of Maryland Smith Performance Arts Center at Maryland	275,000	353,441	362,312
University of Maryland Baltimore County – Center for Arts, Design		26,199	26,857
University of Maryland College Park – David C. Driskell Center	33,506	35,000	35,879
Washington County Museum of Fine Arts	51,747	73,029	74,862
Waterfowl Festival, Inc.	47,000	55,000	56,381
WBJC – FM	38,000	38,000	38,954
Weinberg Center for the Arts/City of Frederick	35,000	80,000	82,008
World Arts Focus	40,000	60,000	61,506
Young Audiences of Maryland Inc.	90,294	110,000	112,761
Subtotal	\$7,655,395	\$9,326,456	\$9,355,530
Community Arts Development:			
Allegany Arts Council	\$82,548	\$93,205	\$95,544
Arts and Humanities Council of Montgomery County	115,968	131,239	134,533
Arts Council of Anne Arundel County	99,702	112,676	115,504
Arts Council of Calvert County	83,080	93,843	96,198
Baltimore County Commission on Arts and Sciences	109,400	123,586	126,688

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	<u>2013</u>	<u>2014</u>	<u>2015</u>
Baltimore Office of Promotion and the Arts	102,444	115,572	118,473
Caroline County Council of Arts, Inc.	81,025	91,517	93,814
Carroll County Arts Council	85,929	97,014	99,449
Cecil County Arts Council Inc.	83,534	94,336	96,704
Charles County Arts Alliance Inc.	85,266	96,334	98,752
Dorchester Center for the Arts, Inc.	81,012	91,510	93,807
Frederick Arts Council Inc.	88,466	99,971	102,480
Garrett County Arts Council	80,917	91,400	93,694
Harford County Cultural Arts Board	88,822	100,340	102,859
Howard County Arts Council	90,526	102,417	104,988
Kent County Arts Council	80,558	91,005	93,289
Prince George’s Arts and Humanities Council	111,638	126,189	129,356
Queen Anne’s County Arts Council	81,586	92,166	94,479
Salisbury Wicomico Arts Council	83,443	94,293	96,660
Somerset County Arts Council	80,782	91,253	93,543
St. Mary’s County Arts Council	83,745	94,634	97,009
Talbot County Arts Council, Inc.	81,209	91,737	94,040
Washington County Arts Council, Inc.	85,232	96,277	98,694
Worcester County Arts Council, Inc.	81,701	92,288	94,604
Subtotal	\$2,128,533	\$2,404,802	2,465,163
Artists in Education:			
Class Acts Arts, Inc.	\$25,500	\$25,500	\$26,140
Young Audiences of Maryland – Arianna Ross	26,885		
Young Audiences of Maryland, Inc.	35,500	39,500	40,491
Subtotal	\$87,885	\$65,000	\$66,632
Maryland Traditions:			
Creative Alliance, Inc.	\$40,000		
National Council for the Traditional Arts	70,000	\$70,000	\$71,757
The Ward Museum of Wildfowl Art	25,000	25,000	25,628
University of Maryland Baltimore County	45,961		
Subtotal	\$180,961	\$95,000	\$97,385
Grants to all other organizations, regardless of which MSAC subprogram	\$2,176,010	\$2,563,417	\$2,842,419
Total – Arts Council	\$12,228,784	\$14,454,675	\$14,827,128
Total DBED Grants	\$21,745,033	\$28,746,843	\$24,834,417

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BRAC: base realignment and closure
MDOT: Maryland Department of Transportation
MSAC: Maryland State Arts Council
PTAP: Procurement Technical Assistance Program
SBDC: Small Business Development Center
TBD: to be decided
TEDCO: Maryland Technology Development Corporation

* The final distribution of Maryland State Arts Council grants to arts organizations for fiscal 2015 is not known at this time. Grant amounts for fiscal 2015 have not been determined. To estimate the grant amounts for fiscal 2015, the percentage increased based upon the total grant amount from fiscal 2014 to 2015 was applied.

Source: Department of Business and Economic Development

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Business and Economic Development (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2013					
Legislative Appropriation	\$49,350	\$65,702	\$2,145	\$1,169	\$118,366
Deficiency Appropriation	1,150	0	0	0	1,150
Budget Amendments	-33	5,991	19,597	0	25,555
Reversions and Cancellations	-213	-5,137	-18,267	-200	-23,817
Actual Expenditures	\$50,254	\$66,556	\$3,475	\$969	\$121,254
Fiscal 2014					
Legislative Appropriation	\$67,073	\$66,083	\$1,781	\$1,017	\$135,954
Budget Amendments	274	803	21,155	0	22,233
Working Appropriation	\$67,347	\$66,886	\$22,937	\$1,017	\$158,187

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The department's actual expenditures exceeded the original appropriation in fiscal 2013 due to deficiency appropriations and budget amendments. The fiscal 2014 allowance included a fiscal 2013 deficiency of \$500,000 in general funds to complete a proposal to operate an unmanned aerial systems test site in the State. It is part of a tri-state effort that is competing for the Federal Aviation Administration designation as a test site. The fiscal 2013 budget bill included language that expressed the intent of the General Assembly that the department use a portion of its appropriation to collaborate with the University System of Maryland to develop an incubator program for businesses associated with the unmanned aerial vehicle industry. An additional deficiency added \$100,000 in general funds to supplement an annual grant for the World Trade Center Institute. General funds were again increased by a deficiency to provide funds for the construction of the 9/11 Memorial.

These increases were mitigated, primarily, by a budget amendment that realigned existing expenditures with federal and special funds instead of general funds. Also, in fiscal 2013, State agencies were assessed a fee for development of a new statewide personnel system. That year, the State spent approximately 48% of this major IT project's appropriated budget, with the remainder reverted to the general fund. The department's share of this reversion was \$52,065. Finally, the department reverted \$150,000 in general funds due to the underutilization of the military reservist loan program.

The fiscal 2013 special fund appropriation increased \$5.9 million over the original appropriation. The vast majority of the increase (\$5.5 million) relates to the department's InvestMaryland Program. Proceeds from the tax credit auction exceeded original estimates; therefore, more funds were available for these programs. A budget amendment was executed to recognize the additional special funds. Another budget amendment added \$40,000 in special funds to the appropriation for the Partnership for Workforce Quality. In fiscal 2012, the program experienced a cancellation of prior encumbered funds. As such, additional funds became available to appropriate in fiscal 2013 for the purpose of worker training grants. The fiscal 2013 appropriation was also increased due to the cost-of-living adjustment (COLA). The department's share of this adjustment is \$134,438 across special and federal funds. Also, as mentioned above, there was a budget amendment to replace general funds with special funds in several programs.

The department was required, however, to cancel a significant portion of special funds. The majority of the canceled special funds were related to the MSBDFP Program. Interpretation of rules from the Securities and Exchange Commission for the InvestMaryland Program led to a delay in MSBDFP investments of \$2.4 million. The department advises that issue will not reoccur in the future. Secondly, \$1.2 million in additional special funds were canceled under MSBDFP due to a change in the manner in which repayments are credited to the contract financing program. The remaining canceled funds were allocated in smaller amounts across the other units of the department.

There was significant activity in federal funds in the fiscal 2013 budget. A budget amendment added \$19,579,032 in federal funds to various units within the department. The funds are awarded from the U.S. Department of the Treasury in support of the State Small Business Credit Initiative Act of 2010. This federal program was designed to utilize existing state economic

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development programs to increase the capital available to small business. The funds were disbursed as follows:

- **\$3.0 Million – Maryland Industrial Development Financing Authority (MIDFA):** Half of these funds were for loan guarantees and half will be transferred to the Department of Housing and Community Development (DHCD) for use in its Neighborhood Business Works Debt program;
- **\$15.5 Million – Maryland Enterprise Fund:** Funds were for early-stage small business investments; and
- **\$4.5 Million – MSBDFA:** These funds were for the authority's Long-Term Guaranty Program. Typically, the program funds small businesses that have difficulty obtaining traditional financing.

A significant portion of these funds were appropriated and subsequently canceled in fiscal 2012. The department had difficulty in deploying the funds during the fiscal year. The department attempted a more efficient means of allocating the funds in fiscal 2013 to ensure that funds will not be withdrawn by the U.S. Department of the Treasury. However, the department was still unable to make most of the program workable under the federal guidelines.

Finally, \$200,000 of reimbursable funds was canceled. The department's Tourism Development Board received close to \$1 million in funds from MDOT for the scenic byways program. However, the board spent less on this program than expected.

Fiscal 2014

Amendments to adjust for a COLA and other salary increments increased the fiscal 2014 by \$274,173 in general funds, \$103,351 in special funds, and \$11,184 in federal funds.

A fiscal 2014 amendment added \$700,000 in special funds to the MEAF program. This program was originally established to provide loans to new or existing companies in communities suffering from dislocation due to defense adjustments. The program has expanded and is often used as a source of direct lending assistance to small businesses. Recipient companies do not have to show that they have suffered as a result of declining defense spending, only that they are located in an area suffering from defense adjustments. The MEAF program has not been utilized in recent years due to a lack of appropriations and a reduced fund balance. However, recent repayments and recoveries have replenished the available funds for the program. Additionally, the U.S. Economic Development Administration, which originally capitalized the program, has informed the department that the fund balance is subject to federal sequestration policies if not expended. This amendment proposes to appropriate the fund balance and will allow the department to come into compliance with these federal regulations. The department plans to use the funds to provide working capital loans at

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favorable terms to small and early-stage cyber security companies that are located in areas affected by defense adjustments.

An additional amendment added \$2,992,275 in federal funds to the Maryland Tourism Development Board. This funding is passed through to the nonprofit arm of the Maryland War of 1812 Bicentennial Commission created by an executive order of the Governor. The funding is derived from a surcharge on the sale of the Star Spangled Banner Commemorative Coin as authorized by federal law. According to the federal regulations, the funding must be matched by private fundraising. The department has advised that the funds will be used by the commission to support activities related to the bicentennial celebration of the War of 1812 and in particular, the Battle of Baltimore. It should be noted that \$6 million in general funds has already been appropriated to the department between fiscal 2012 and 2014 to support bicentennial celebration activities. Specifically, the general funds support matching grants to nonprofit organizations and local governments and support the Star Spangled Spectacular, a celebration of the Star Spangled Banner.

Finally, an additional amendment added \$18,151,729 in federal funds to various units within the department. The funds are awarded from the U.S. Department of the Treasury in support of the State Small Business Credit Initiative Act of 2010. This federal program was designed to utilize existing state economic development programs to increase the capital available to small business. The funds will be disbursed as follows:

- **\$2.4 Million – MIDFA:** A portion of these funds will be used for loan guarantees, and a portion will be transferred to DHCD for use in its Neighborhood Business Works Debt program;
- **\$11.5 Million – Maryland Enterprise Fund:** Funds will be used for early-stage small business investments; and
- **\$2.4 Million – MSBDFa:** These funds will be used in the authority’s Long-Term Guaranty Program. Typically, the program funds small businesses that have difficulty obtaining traditional financing.

A significant portion of these funds were appropriated and subsequently canceled in fiscal 2012 and again in fiscal 2013 as discussed previously. The department had difficulty in deploying the funds during the two fiscal years, in part due to concerns by federal officials regarding how the funds were to be invested. The department has allayed the concerns and will attempt a more efficient means of allocating the funds in fiscal 2014 to ensure that funds will not be withdrawn by the U.S. Department of the Treasury. It should be noted, however, that difficulties in awarding the funds may still exist. MIDFA is a significantly underutilized program. Additionally, the Enterprise Fund and MSBDFa are the recipients of a significant influx of special funds due to the InvestMaryland Program.

**Object/Fund Difference Report
Department of Business and Economic Development**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	222.00	222.00	220.00	-2.00	-0.9%
02 Contractual	16.45	19.45	18.15	-1.30	-6.7%
Total Positions	238.45	241.45	238.15	-3.30	-1.4%
Objects					
01 Salaries and Wages	\$ 20,851,379	\$ 23,403,029	\$ 23,639,532	\$ 236,503	1.0%
02 Technical and Spec. Fees	800,790	1,000,988	938,200	-62,788	-6.3%
03 Communication	630,106	613,410	660,844	47,434	7.7%
04 Travel	546,598	695,480	719,249	23,769	3.4%
06 Fuel and Utilities	24,542	25,120	26,061	941	3.7%
07 Motor Vehicles	259,186	267,157	276,310	9,153	3.4%
08 Contractual Services	9,991,521	11,511,899	12,199,363	687,464	6.0%
09 Supplies and Materials	208,367	229,563	250,462	20,899	9.1%
10 Equipment – Replacement	360,135	19,000	15,300	-3,700	-19.5%
11 Equipment – Additional	24,352	0	493	493	N/A
12 Grants, Subsidies, and Contributions	41,415,951	55,838,308	56,835,818	997,510	1.8%
13 Fixed Charges	2,438,609	2,574,072	2,605,430	31,358	1.2%
14 Land and Structures	43,702,033	62,008,942	63,714,355	1,705,413	2.8%
Total Objects	\$ 121,253,569	\$ 158,186,968	\$ 161,881,417	\$ 3,694,449	2.3%
Funds					
01 General Fund	\$ 50,253,578	\$ 67,347,400	\$ 80,215,442	\$ 12,868,042	19.1%
03 Special Fund	66,556,377	66,886,145	80,857,549	13,971,404	20.9%
05 Federal Fund	3,474,639	22,936,682	808,426	-22,128,256	-96.5%
09 Reimbursable Fund	968,975	1,016,741	0	-1,016,741	-100.0%
Total Funds	\$ 121,253,569	\$ 158,186,968	\$ 161,881,417	\$ 3,694,449	2.3%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Fiscal Summary
Department of Business and Economic Development

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
0A Department of Business and Economic Development	\$ 12,453,668	\$ 13,951,314	\$ 14,319,720	\$ 368,406	2.6%
0E Division of Marketing	3,246,939	3,599,718	3,411,691	-188,027	-5.2%
0F Division of Financial Assistance Programs	77,289,712	105,272,977	109,950,885	4,677,908	4.4%
0G Division of Tourism and Promotion	28,263,250	35,362,959	34,199,121	-1,163,838	-3.3%
Total Expenditures	\$ 121,253,569	\$ 158,186,968	\$ 161,881,417	\$ 3,694,449	2.3%
General Fund	\$ 50,253,578	\$ 67,347,400	\$ 80,215,442	\$ 12,868,042	19.1%
Special Fund	66,556,377	66,886,145	80,857,549	13,971,404	20.9%
Federal Fund	3,474,639	22,936,682	808,426	-22,128,256	-96.5%
Total Appropriations	\$ 120,284,594	\$ 157,170,227	\$ 161,881,417	\$ 4,711,190	3.0%
Reimbursable Fund	\$ 968,975	\$ 1,016,741	\$ 0	-\$ 1,016,741	-100.0%
Total Funds	\$ 121,253,569	\$ 158,186,968	\$ 161,881,417	\$ 3,694,449	2.3%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.