

T00F
Department of Business and Economic Development - PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Thousands)

	<i>FY 2002*</i> <i>Approp.</i>	<i>FY 2003**</i> <i>Approp.</i>	<i>FY 2004</i> <i>Allowance</i>	<i>Percent</i> <i>Change</i>	<i>DLS</i> <i>Recommd.</i>
Md. Small Business Development Financing Authority (MSBDFA)	\$16,577	\$17,829	\$19,225	7.8%	18,475
Md. Industrial Development Financing Authority	0	0	0	0%	0
Maryland Enterprise Investment Fund	8,000	6,329	5,000	-21.0%	5,000
Maryland Economic Adjustment Fund (MEAF)	800	1,500	1,000	-33.3%	1,000
Maryland Economic Development Assistance Fund (MEDAF)	30,031	32,000	25,500	-20.3%	25,500
Maryland Competitive Advantage Financing Fund (MCAFF)	1,275	829	750	-9.5%	0
Smart Growth Economic Development Infrastructure Fund (One Maryland)	7,800	7,700	8,000	3.9%	5,500
Sunny Day Fund – General Funds	11,625	0	3,000		0
Total	\$76,108	\$66,187	\$62,475	-5.6%	\$55,475
Fund Source					
General	\$33,356	\$16,367	\$10,975	-32.9%	\$6,475
Special	42,751	49,820	44,000	-11.7%	44,000
GO Bond	0	0	7,500		5,000
Total	\$76,107	\$66,187	\$62,475	-5.6%	\$55,475

Note: The figures include \$7.5 million of general obligation (GO) bonds in the fiscal 2004 allowance for the One Maryland Program.

*Reflects embargo of \$11.2 million of fiscal 2002 general fund appropriations and reflects approved budget amendments.

**Reflects the planned embargo of \$513,255 of fiscal 2003 general fund appropriations and reflects the approved budget amendment for MSBDFA.

Summary of Issues

The MCAFF Program Should Be Discontinued: The Maryland Competitive Advantage Financing Fund (MCAFF) program is designed to provide financial assistance for the development and expansion of small businesses. Similar programs exist, and the administrative costs are excessive. **Accordingly, the Department of Legislative Services (DLS) recommends the program be eliminated.**

One Maryland Program to Sunset at the End of Fiscal 2004 – Continuation Uncertain: Established as a five-year program to assist the distressed jurisdictions of the State, the One Maryland Program will sunset on June 30, 2004, without further action by the General Assembly. **DLS recommends reducing the amount of GO bond funds to more accurately reflect the projects for which the department has already made commitment.**

Diminished Use of Sunny Day Fund: Utilization of the Sunny Day Fund has diminished over the last several years resulting in a large revolving fund balance. **DLS recommends deleting the proposed \$3.0 million general fund appropriation. DLS further recommends the transfer of \$10.0 million of available fund balance to the State general fund at the close of fiscal 2003.**

Summary of Recommended Actions

	<u>Total</u> <u>Reduction</u>	<u>Fund</u>
1. Reduce general fund support for the Maryland Small Business Development Financing Authority Contract Financing Program.	\$ 250,000	GF
2. Reduce general fund support for the Maryland Small Business Development Financing Authority Equity Participation Investment Program.	500,000	GF
3. Delete funding for the Maryland Competitive Advantage Financing Fund.	750,000	GF
4. Reduce general obligation bond support of Smart Growth Economic Development Infrastructure Fund (One Maryland)	2,500,000	GO
5. Delete general fund support for the Economic Development Opportunities Program Fund (Sunny Day Fund).	3,000,000	GF
Total Fund Reductions	\$ 7,000,000	
Total General Fund Reductions	\$ 4,500,000	
Total Obligation Bond Fund Reductions	\$ 2,500,000	

Overview

The fiscal 2004 allowance for the Department of Business and Economic Development's (DBED) financing programs is \$62,475,000, which represents a reduction of \$3,711,745 or 5.6% below the fiscal 2003, adjusted legislative appropriation. The allowance is comprised of \$10,975,000 in general funds, \$44.0 million in special funds, and \$7.5 million in GO bonds. The allowance for general funds is approximately \$5.4 million less than the adjusted fiscal 2003 general fund appropriation. The use of GO bonds to support the One Maryland program skews the comparison of the fiscal 2004 allowance to the fiscal 2003 appropriation, thus for comparative purposes the total funding for the program considered. The special funds included in the budget represent estimated revenues generated by the financing program, as well as the use of available fund balances that will also support financing activities. Overall, special funds decrease in the budget by \$5.8 million. A \$4.5 million reduction in special fund support for the Maryland Economic Development Adjustment fund (MEDAF) program comprises most of the overall reduction in special funds. A summary of the Governor's allowance as it relates to the individual programs is provided below:

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- **Maryland Small Business Development Financing Authority (MSBDF):** MSBDF programs receive \$19,225,000 in the fiscal 2004 allowance. This is comprised of \$2,725,000 in general funds and \$16.5 million in special funds and represents a \$1.4 million or 7.8% increase over the adjusted fiscal 2003 appropriation. General funds increase by \$816,000 and special funds by \$580,000 in the budget.
- **Maryland Enterprise Fund:** The allowance provides \$5.0 million for the Enterprise Fund and is comprised of \$4.5 million in general funds and \$500,000 in special funds. The allowance will support both Enterprise and Challenge program investments. The allowance represents a \$1,329,000 reduction from what was appropriated for fiscal 2003 after adjusting for the impact of the embargo of \$171,085 of fiscal 2003 general fund appropriations.
- **Maryland Economic Adjustment Fund (MEAF):** MEAF receives an allowance of \$1.0 million in special funds which is \$500,000 less than what was made available for fiscal 2003. The reduction reflects an estimated decline of available fund balance that can be used to support the program's activities.
- **Maryland Economic Development Adjustment Fund (MEDAF):** The MEDAF program receives an allowance of \$25.5 million in special funds. The allowance, which represents a \$6.5 million reduction from what was appropriated for fiscal 2003, does not include any general fund support.
- **Maryland Competitive Advantage Financing Fund (MCAFF):** The MCAFF program receives an allowance of \$750,000 consisting entirely of general funds. This represents an decrease in general funds of \$79,000 below the fiscal 2003 general fund appropriation after adjusting for the embargo of \$171,085 of fiscal 2003 general fund appropriations. There are no special funds supporting MCAFF in fiscal 2004, as the program does not generate special funds in excess of operating costs.
- **Smart Growth Economic Development Infrastructure Fund (One Maryland):** The Governor's budget provides the One Maryland program with a total fiscal 2004 budget of \$8.0 million which is \$300,000 more than provided in the fiscal 2003 budget. While the budget does not provide State general funds, the program is slated to receive \$7.5 million in GO bonds in place of the general funds. The allowance also includes \$500,000 of special funds.
- **Economic Development Opportunities Program Fund (Sunny Day):** After not receiving an appropriation in the fiscal 2003 budget, the Sunny Day Fund receives \$3.0 million of general funds in the Governor's budget.

Overview Issues

1. Two Years of Fund Transfers and Embargoed Appropriations

Concerned about a possible downturn in the economy, former Governor Parris Glendening and the budget committees developed a plan during the 2001 session to restrict the expenditure of a portion of fiscal 2002 general fund PAYGO appropriations until the Board of Revenue Estimates (BRE) provided its updated fiscal 2002 general fund revenue forecast in December 2001. After the BRE lowered its estimates, numerous fiscal 2002 general fund PAYGO appropriations, including several appropriations made to DBED's financing programs, were reduced. This event represents the beginning of what has been two years of reduced appropriations and fund transfers.

Exhibit 1 provides a list of the actual fiscal 2002 and proposed fiscal 2003 appropriation embargoes for the individual financing programs. While the amount proposed for fiscal 2003 is relatively small especially in comparison to the fiscal 2002 level, the cumulative effect is a reduction in previously appropriated general funds of over \$11.7 million.

Exhibit 1

Embargoes Fiscal 2002 and 2003 General Fund Appropriations

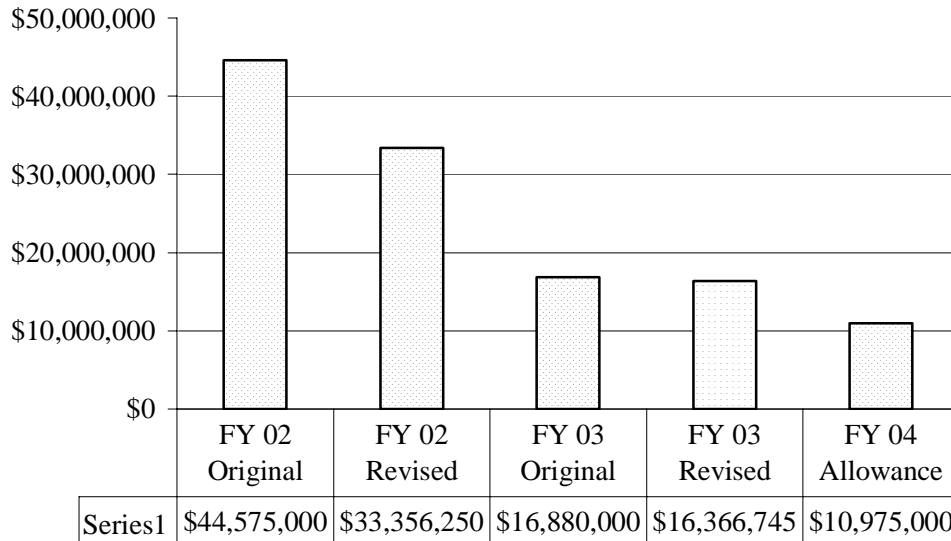
<u>Program</u>	<u>FY 02 Amount</u>	<u>FY 03 Amount</u>	<u>Total</u>
MSBDFFA	\$568,750	\$171,085	\$739,835
Enterprise Fund	0	171,085	171,085
MEDAF	3,750,000	0	3,750,000
MCAFF	525,000	171,085	696,085
One Maryland	2,500,000	0	2,500,000
Sunny Day	3,875,000	0	3,875,000
Total	\$11,218,750	\$513,255	\$11,732,005

Source: Fiscal 2003 and 2004 State Budgets

The decision to embargo portions of general fund appropriations reflects the overall decline in general funds that are available to support State operations. This is also reflected in the reduced level of general fund appropriations made to the financing program in fiscal 2003 and proposed for fiscal 2004 when compared to what was originally appropriated for fiscal 2002. **Exhibit 2** illustrates the impact of the general fund embargoes and the decline in general fund appropriations is for the financing programs. The revised fiscal 2003 appropriation of \$16.4 million is \$28.2 million less than the original fiscal 2002

Exhibit 2

**General Fund Appropriation Comparison
Fiscal 2002 through 2004 Allowance**



Source: Fiscal 2002 through Governor’s Proposed Fiscal 2004 State Budget

appropriation. The proposed fiscal 2004 appropriation is approximately \$11.0 million and is one-quarter of the original fiscal 2002 appropriation. (\$7.5 million in GO bonds is proposed for the One Maryland program for fiscal 2004 to bridge some of the funding gap).

In addition to the decline in general fund support, fund transfers have also impacted the financing programs. **Exhibit 3** shows the fiscal 2002 actual and fiscal 2003 proposed fund transfers for each of the financing programs impacted. These transfers represent a portion of the available unencumbered balances in the individual revolving fund accounts. With the fiscal 2003 proposed fund transfers, the cumulative effect of the two years is \$31.0 million in transfers to the State general fund.

Exhibit 3

Fund Transfers
Fiscal 2002 Actual and Fiscal 2003 Proposed

<u>Program</u>	<u>FY 02 Amount</u>	<u>FY 03 Amount</u>	<u>Total</u>
MSBDFA	\$0	\$1,000,000	\$1,000,000
MIDFA	5,000,000	0	5,000,000
Enterprise Fund	0	2,000,000	2,000,000
MEDAF	8,500,000	2,000,000	10,500,000
MCAFF	0	450,000	550,000
One Maryland	2,000,000	2,550,000	4,450,000
Sunny Day	7,500,000	0	7,500,000
Total	\$23,000,000	\$8,000,000	31,000,000

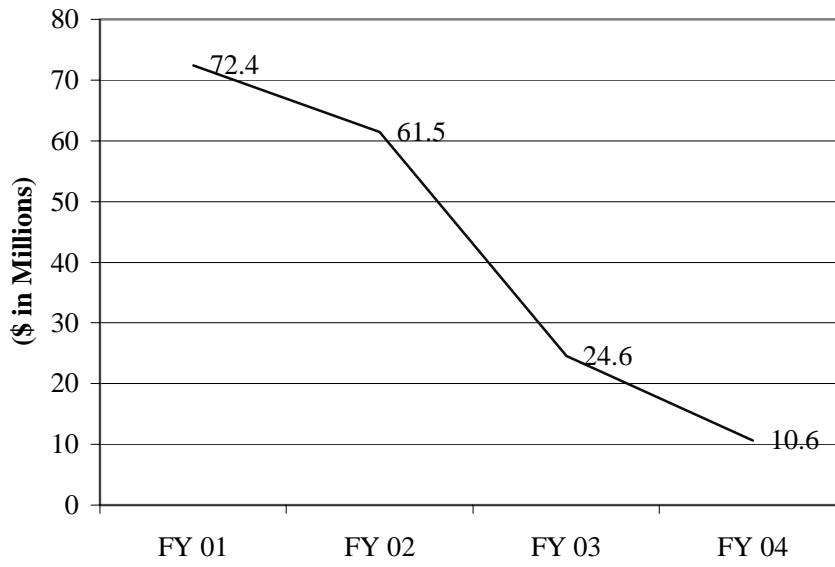
Source: Fiscal 2002 and 2003 State Budgets

Excluding those programs such as the Maryland Industrial Development Financing Authority (MIDFA) and the MSBDFA guarantee and surety programs which keep fund balances in an amount necessary to maintain adequate leverage ratios acceptable to participating financial institutions, the fiscal 2002 actual transfers and proposed fiscal 2003 transfers will all but eliminate the unencumbered balances that existed in the financing programs in fiscal 2001. **Exhibit 4** illustrates the approximate cumulate fund balances that existed in the financing programs for each of fiscal 2001 through 2004 if the proposed fiscal 2003 transfers take place without amendment.

Despite reduced general fund support and declining fund balances, the department has been able to make use of special fund revenues to support the financing activities of the various programs. Pipeline data provided by the department appears to indicate that sufficient funds have been made available to meet the needs of the department. In the long run, however, the decline of general fund support and reduced fund balances will result in greater demand for general funds to support the current level of encumbrance activity.

Exhibit 4

Unencumbered Fund Balances
Fiscal 2001 Actual through Fiscal 2004 Estimated



Source: Department of Budget and Management

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Consolidated Administrative Expenses – All Programs

	FY 2002 Actual	FY 2003 Estimated	FY 2004 Estimated
Sources:			
Special Funds			
Maryland Small Business Development Financing Authority (MSBDFA)	\$1,581,092	\$1,633,555	\$1,620,481
Maryland Industrial Development Financing Authority (MIDFA)	1,190,225	1,140,479	1,069,229
Maryland Enterprise Fund	1,356,903	1,472,254	1,506,568
Maryland Economic Adjustment Fund (MEAF)	90,140	85,460	91,987
Maryland Economic Development Assistance Fund (MEDAF)	1,702,808	1,693,727	1,697,218
Maryland Competitive Advantage Financing Fund (MCAFF)	766,752	781,538	798,230
Economic Development Opportunities Program Fund (Sunny Day)	1,308,031	1,313,953	1,300,026
Program 8	0	0	0
Subtotal – Special Funds	\$7,995,951	\$8,120,966	\$8,083,739
General Funds	0	0	0
Federal Funds	0	0	0
Nonbudgeted Funds	0	0	0
Total Funds	\$7,995,951	\$8,120,966	\$8,083,739

Uses:			
Direct Expenses	\$3,679,081	\$3,930,442	\$4,039,308
Indirect Expenses			
Legal (AG, Bond Counsel, etc.)	1,300,857	1,344,001	1,395,032
Marketing	771,773	567,414	487,829
Asset Management	1,544,872	1,494,744	1,343,426
General (Office of Secretary, Personnel, etc.)	699,368	784,365	818,144
Total Direct & Indirect Expenses	\$7,995,951	\$8,120,966	\$8,083,739

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For fiscal 2004 the operating budget includes expenses of approximately \$8.1 million to operate the department's financing programs. The department's cost allocation model allows it to charge the individual programs for the cost of operations. The only exception is for the One Maryland program which by statute the department may not charge the fund for the cost of operations. From fiscal 2002 through the fiscal 2004 allowance there is almost no growth in administrative expenses. Cost containment measures for fiscal 2002 and 2003 play a part in keeping these costs at approximately \$8 million annually. Approximately 50% of these expenses can be classified as "direct" in that they are associated with the personnel and operations of the programs being charged. These direct expenses have increased by approximately \$400,000 from fiscal 2002 to the fiscal 2004 allowance. Greater employee and retiree health care costs account for the increase in direct expenses. The indirect expenses include legal and financial administration, marketing, and general department overhead. Overall, these expenses have decreased in the budget from what was charged in fiscal 2002.

Maryland Small Business Development Financing Authority (MSBDFa)

PAYGO GF	\$2,725,000	Recommendation:	Reduce general fund support by \$750,000
PAYGO SF	\$16,500,000		

Program Description: The Maryland Small Business Development Financing Authority (MSBDFa) was established to offer financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172, Acts of 2001 broadened MSBDFa's eligibility to include all businesses that are unable to obtain adequate business financing on reasonable terms through private lending institutions due to the institutions' credit criteria. A private contractor, currently Meridian Management Group, Inc. (MMG), reviews the financing applications for presentation to the MSBDFa Board.

Year Program Began: 1978

MSBDFa is comprised of the following four programs:

Contract Financing Program (CFP) provides direct loans and loan guarantees to eligible small business contractors for working capital and equipment acquisition needed to perform work under contracts where the majority of the funding is provided by a federal, State, or local government agency or utility regulated by the Public Service Commission. Financing is limited to \$500,000 and must be repaid during the term of the contract. Interest rates range from the prevailing prime rate plus 4%. During fiscal 2002, 26 applications were approved for financing totaling \$7.2 million. Seventeen of these loans closed during the fiscal year in the amount of \$4.3 million, with another seven totaling \$2.0 million pending at the close of fiscal 2002. Since the program began, 239 projects have been funded totaling \$35.4 million.

The fiscal 2004 allowance for CFP is \$500,000 in general funds and \$16,250,000 in special funds. The fiscal 2004 allowance represents for the first time the large amount of special funds that support this program and reflects the short-term nature of the financing mechanism in which funds are constantly revolving several times during a fiscal year. This will eliminate the need for an annual budget amendment to increase the special fund appropriation to the level of financing provided. Total program exposure is approximately \$7.2 million and represents the average principal amount of funds available for distribution.

The \$500,000 in general funds provided in the fiscal 2004 allowance is a decrease of \$150,000 from what was appropriated for fiscal 2003. Despite the reduction in general funds, the program is expected to provide \$16,750,000 in revolving loan distributions, or approximately \$750,000 or 4.7% more than is anticipated during fiscal 2003. **DLS recommends an appropriation level of \$250,000 which will enable the program to increase its revolving loan activity (30%) and maintain assistance to roughly 15 companies during the fiscal year at a time when general funds are scarce and needed for other State priorities.**

Long-term Guaranty Program (LTGP) provides guarantees of loans from private lenders of up to

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the lesser of 80% of a loan or \$1.0 million and provides interest subsidies for loans from qualified lenders. Guaranties cannot exceed 10 years, and the interest rate charged by the financial institution is limited to prime plus 2%. Interest rate subsidies can be up to 4 percentage points of the interest being charged by the financial institution making the loan. As an insurance fund, there is no need for an appropriation if the balance is sufficient to provide guarantees without being over-leveraged. While there is no statutory limit on fund leverage, the department intends to maintain the leverage ratio under 3:1 based upon the higher-than-normal risks associated with this program as acknowledged by the program mission. During fiscal 2002 the program guaranteed ten loans for \$3.3 million, and 16 applications were approved for approximately \$5.0 million. Total exposure at the close of fiscal 2002 was \$2.57 million. The program is projected to provide fifteen loans in the aggregate amount of \$4.0 million with a minimum of ten expected to close by the end of fiscal 2003.

The fiscal 2004 allowance provides \$225,000 in general funds. These funds will allow the program to provide approximately \$1.0 million in new guarantees during fiscal 2004 which is roughly half the amount provided in fiscal 2002 and planned for fiscal 2003. The inability to provide guarantees at the fiscal 2002 and 2003 levels results from the fact that more guarantees have been provided over the course of the last two fiscal years than have been terminated consequently the leverage ratio of the program has increased from 1.80 in fiscal 2001 to a planned ratio of 2.88 for fiscal 2004. **In order to maintain the leverage ratio within the 3:1 ratio, DLS concurs with the Governor's allowance.**

Surety Bond Program (SBP) assists eligible small businesses in obtaining bid, performance, or payment bonds necessary to perform on contracts where the majority of funds are provided by a government agency or public utility. Bonds that are directly issued are limited to \$750,000. Guaranties are limited to 90% of the face value of the bond not to exceed a maximum participation of \$900,000. While there is no statutory limit on fund leverage, the department intends to maintain the leverage ratio under 3:1 based upon the higher-than-normal risks associated with this program as acknowledged by the program mission. The program made five bonding commitments obligating \$1.5 million in program funds during fiscal 2002. There were seven companies in the portfolio at the beginning of fiscal 2003 with bonds outstanding totaling \$1.56 million. Total commitments under the bonding lines of credit totaled \$2.5 million. Activity is expected to increase in fiscal 2003 and into fiscal 2004 due to the poor state of the bonding industry. The Meridian Management Group (MMG) anticipates obligating another \$2.7 million in each of fiscal 2003 and 2004 to secure bonding for seven to eight companies.

The fiscal 2004 allowance provides \$1.0 million in general funds for SBP, which will allow the program to provide approximately \$2.75 million in new bonds and guarantees during fiscal 2004. Program activity is expected to increase in fiscal 2004 and in the out-years as reflected in the planned funding levels shown in the 2003 *Capital Improvement Program (CIP)*. The department attributes this to changes in the surety market which have negatively impacted the ability of small businesses to acquire bonding through traditional financing institutions and increased the demand for SBP financing. The increased demand on the program has resulted in an increase in the leverage ratio from 1.88 in fiscal 2002 to an estimated rate of 2.90 for fiscal 2004. **In order to maintain the leverage ratio within the 3:1 ratio, DLS concurs with the Governor's allowance.**

Equity Participation Investment Program (EPIP) provides loans, loan guaranties, and equity

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investments for the specific purpose of purchasing a franchise, acquiring and existing profitable business and developing a technology-based business. Franchising investments are limited to 45% of the total project costs or a maximum of \$500,000, and the applicant is required to make an equity investment on no less than 10%. Business acquisitions are limited to 25% of the initial investment or a maximum of \$500,000, and the applicant is required to make an equity investment of not less than \$75,000. Technology investments are limited to a maximum of \$500,000 in a business entity with a proven product or service. Since inception the program has extended loans or equity investments to 54 companies. One transaction totaling \$500,000 was financed during fiscal 2002. MMG anticipates closing on three projects in the approximate amount of \$1.2 million. Through the first half of the fiscal year, two projects have been approved totaling \$400,000 in commitments.

The fiscal 2004 allowance for this program is \$1.0 million in general funds which is \$84,000 less than what was appropriated for fiscal 2003 after adjusting for the embargo of \$171,085 of fiscal 2003 appropriations, and \$250,000 less than what was planned in the 2002 CIP. The allowance also provides \$250,000 in special funds. These funds are expected to support \$1.0 million in encumbrances during fiscal 2004. For comparative purposes the actual fiscal 2002 and estimated fiscal 2003 encumbrance activity averages about \$450,000 annually. **Even after accounting for the increase in planned encumbrance activity, the program is expected to end fiscal 2004 with a balance estimated at \$739,000. DLS therefore recommends an appropriation level of \$500,000, which is sufficient to support the planned level of activity and still maintain a balance in excess of \$200,000 at the close of fiscal 2004.**

Comments: As part of the embargo of fiscal 2003 PAYGO general fund appropriations included in former Governor Glendening's cost containment plan presented to the Board of Public Works (BPW) on January 8, 2003, EPIP will lose \$171,085 of its appropriation. In addition, the Governor's budget plan as introduced provides for the transfer of \$1.0 million of available fund balance from EPIP. **Despite the proposed fund transfer and embargo, EPIP is expected to carry forward a fund balance of \$755,000 into fiscal 2004. Consequently, DLS advises that the \$1.0 million transfer should be made.**

Fund Data

Fund History – Contract Financing Program (\$ in Thousands)

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$568	\$509	\$16,918
REVENUE			
General Funds	281	650	500
Loan Repayments and Interest	16,072	15,920	15,913
Investment & Other Income	156	247	354
TOTAL REVENUE	16,509	16,817	16,767
TOTAL AVAILABLE	17,077	17,326	33685
ENCUMBRANCES			
Loans	16,176	16,000*	16,750
Operating Expenses	392	408	408
TOTAL ENCUMBRANCES	16568	408	\$17,158
Ending Balance	\$509	\$16,918	\$16,527

*Loans made as of 12/31/02 = \$1,575,000 – due to the short-term nature of the loans it is anticipated that these loans will turn over three to four times and increase the total encumbrance level with each recycling of the loan.

Fund History – Guaranty Fund Program (\$ in Thousands)

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$1,811	\$1,537	\$1,184
REVENUE			
General Funds	75	0	225
Investment Income & Loan Repayments	3	85	65
Guarantee Fees & Other Income	40	54	82

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TOTAL REVENUE	118	139	372
TOTAL AVAILABLE	1,929	1,676	1,556
ENCUMBRANCES			
Claims Paid	0	83	93
Operating Expenses	392	409	408
TOTAL ENCUMBRANCES	392	492	501
Ending Balance	\$1,537	\$1,184	\$1,055
Guarantees Outstanding	2,206	2,781	3,347
New Guarantees	2,216	2,000	1,000
Guarantees Terminated/Paid Off	-1,641	-1,434	-1,304
Guarantees Outstanding	2,781	3,347	3,043
Leverage Ratio	3.11	2.82	2.88

**Fund History – Surety Bond Program
(\$ in Thousands)**

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$880	718	\$572
REVENUE			
General Funds	225	175	1,000
Direct Bond Fees	0	30	17
Investment & Guarantee Fees	5	57	106
TOTAL REVENUE	230	262	1,123
TOTAL AVAILABLE	1,110	980	1,695
ENCUMBRANCES			
Claims Paid	0	0	206
Operating Expenses	392	408	408
TOTAL ENCUMBRANCES	392	408	614
Ending Balance	\$718	\$572	\$1,081
Guarantees Outstanding	1,042	1,350	1,550

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New Guarantees	1,350	2,025	2,750
Guarantees Terminated/Paid Off	-1,042	-1,825	-1,163
Guarantees Outstanding	1,350	1,550	3,137
Leverage Ratio	1.88	2.71	2.90

**Fund History – Equity Participation Investment Program
(\$ in Thousands)**

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$644	\$1,332	\$1,255
REVENUE			
General Funds	1,125	1,255	1,000
Loan Repayments	55	175	224
Royalty Repayments	0	60	60
Investment & Other Income	300	13	106
Transfers to State General Fund	0	-1,171	0
TOTAL REVENUE	1,480	332	1,390
TOTAL AVAILABLE	2,124	1,664	2,645
ENCUMBRANCES			
Loans & Investments	400	500*	1,000
Operating Expenses	392	409	408
TOTAL ENCUMBRANCES	792	409	1,408
Ending Balance	\$1,332	\$1,255	\$1,237

* Investments made as of 12/31/02 = \$400,000.

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(\$ in Millions)

<i>Description</i>	<i>2002*</i> <i>Approp.</i>	<i>2003**</i> <i>Approp.</i>	<i>2004</i> <i>Request</i>	<i>2005</i> <i>Estimate</i>	<i>2006</i> <i>Estimate</i>	<i>2007</i> <i>Estimate</i>	<i>2008</i> <i>Estimate</i>
PAYGO GF	\$1.706	\$1.909	\$2.725	3.500	3.275	2.825	2.825
PAYGO SF	6.125	6.095	16.500	16.425	16.650	16.600	16.600
Total	\$7.831	\$8.004	\$19.225	\$19.925	\$19.925	\$19.425	\$19.425

*Revised fiscal 2002 appropriation after embargo of \$588,750 of general funds, excluding approved budget amendments.

**Revised fiscal 2003 appropriation after embargo of \$171,085 of general funds, excluding approved budget amendments.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce general fund support for the Maryland Small Business Development Financing Authority (MSBDFFA) Contract Financing Program. This reduction would provide the program with a \$250,000 general fund appropriation which when combined with the substantial amount of special fund revenues supporting loan activity should enable MSBDFFA to continue to provide short-term financing for small businesses at the same rate provided in fiscal 2003. The Department of Legislative Services recognizes the need for some additional general funds to allow the program to keep pace with the increased size of individual loan applications. Accordingly, a \$250,000 appropriation level is recommended and will allow for increased loan activity during fiscal 2004.	\$250,000	GF
2. Reduce general fund support for the Maryland Small Business Development Financing Authority Equity Participation Investment Program. Even after the impact of the proposed \$1.0 million transfer from this fund to the State general fund and embargo of \$171,085 of fiscal 2003 general fund appropriations, the program is scheduled to begin fiscal 2004 with a balance of approximately \$755,000. The program will be able to encumber \$1.0 million during fiscal 2004 as planned with a \$500,000 general fund appropriation by utilizing the available fund balance.	500,000	GF
Total General Fund Reductions	\$750,000	

Fiscal 2004 Proposed Projects

In the contract financing program, MMG indicates there are 20 projects estimated at \$5.0 million in various stages of development which could possibly be funded during fiscal 2004. MMG anticipates providing equity investments to two companies in the amount of \$1.0 million. Under the surety bond program, it is anticipated that eight companies will be provided \$2.5 million in bonding commitments. MSBDFA anticipates a minimum of sixteen loan guarantee approvals totaling \$5.0 million with approximately ten closings requiring \$2.4 million in program support during fiscal 2004.

Fiscal 2003 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approval Date</u>
Contract Financing Program:		
Douglas Consulting Co. – Baltimore City	\$ 250,000	10/10/02
Mainstreet Technologies, Inc. – Baltimore City	300,000	10/10/02
Nextgen Enterprises – Prince George’s County	75,000	10/10/02
Stella May Contracting, Inc. – Harford County	500,000	10/10/02
The Tidewater Group, Inc. – Charles County	150,000	10/10/02
Spirit Enterprises, Inc. – Prince George’s County	50,000	10/18/02
Artic Systems, Inc.	250,000	1/16/03
Subtotal	\$ 1,575,000	
Equity Participation Investment Program:		
Evolution, LLC – Howard County	\$ 150,000	9/12/02
Votara Corporation – Howard County	250,000	9/12/02
Subtotal	\$ 400,000	

Maryland Enterprise Investment Fund

PAYGO GF	\$4,500,000	Recommendation:	Approve
PAYGO SF	500,000		

Program Description: The Enterprise Investment Fund provides capital through equity purchases for start-up companies who are developing innovative technologies. Investments are limited to 25% of the company's total equity and require a three-to-one outside investor co-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. The department requires funding recipients to maintain their principal place of business for a period of not less than five years from the date of financing. The Challenge Investment Program, a component of the Enterprise Fund, provides limited initial financing or "seed" financing to firms trying to commercialize new technology-driven products and services. Initial investment is limited to \$50,000 and must be matched on a 1:1 basis. Eligible firms may receive an additional \$50,000 if certain milestones are achieved.

Program Performance: The department has made \$19.875 million of investments in 54 ventures through the Enterprise Investment Fund as of the close of fiscal 2002. Nine ventures have gone public or have been acquired, and the Investment Financing Group has received over \$48 million in gains through the exit of three securities of six public issues. The Challenge Program has made 102 investments totaling approximately \$8.2 million through the end of fiscal 2002. Nineteen of the firms have "graduated" and are eligible for investments through the Enterprise Fund.

Year Program Began: 1994

Comments: The fiscal 2004 allowance provides \$5.0 million for Enterprise Fund investments comprised of \$4.5 million in general funds and \$500,000 in special funds. Of that, the Enterprise Fund will receive \$3.5 million, and the Challenge Program will receive \$1.5 million. The ability to reach this level of encumbrance activity is predicated upon estimates that the program will receive \$2.0 million of investment liquidation revenue during fiscal 2004. The five-year projections for the program also include estimated investment income of \$2.0 million annually. The program, however, has realized limited investment liquidation income over the last three fiscal years, and it is unclear how the department has arrived at the fiscal 2004 estimate. Should these revenues not materialize the department will have to limit its encumbrance activity accordingly, or all but deplete the fund balance. **DLS recommends that the department comment on the reliability of this estimate and provide an update on the amount of outstanding investments and their present valuation.**

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As part of the fiscal 2003 cost containment plan presented to the BPW on January 8, 2003, the Enterprise Fund will lose \$171,085 of its appropriation. In addition, the Governor's budget plan provides for the transfer of \$2.0 million of available fund balance to the State general fund at the end of fiscal 2003. Legislation is required to effectuate this transfer. **Despite the possible fund transfer and embargo, Enterprise is expected to carry forward a fund balance of \$1.5 million into fiscal 2004, Consequently, DLS advises that the \$2.0 million transfer will not negatively impact the program's ability to meet the investment opportunities reflected in the program pipeline.**

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$17,179	\$7,355	\$1,468
REVENUE			
General Funds	0	4,500	4,500
Investment Earnings	650	0	2,000
Interest Income	815	706	245
Transfers In/Out	11	-2,171	0
TOTAL REVENUE	1476	3,035	6,745
TOTAL AVAILABLE	18,655	10,390	8,213
ENCUMBRANCES			
Enterprise Investments/Grants	6,215	3,000	3,500
Challenge Investments/Grants	1,775	1,500	1,500
Cancelled Encumbrances	-500	0	0
Operating Expenses	1,330	1,472	1,439
Transfers to MTF	230	200	0
Transfers to TEDCO	2,250	2,750	0
TOTAL ENCUMBRANCES	11,300	8,922	6,439
Ending Balance	\$7,355	\$1,468	\$1,774

*Loans made as of 12/31/02 = \$2,250,000.

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(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
PAYGO GF	\$0.000	\$4.329	\$4.500	\$6.000	\$10.000	\$10.000	\$10.000
PAYGO SF	8.000	2.000	0.500	0.500	1.000	1.000	1.000
Total	\$8.000	\$6.329	\$5.000	\$6.500	\$11.000	\$11.000	\$11.000

*Revised Fiscal 2003 appropriation after embargo of \$171,085 of general funds.

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2004 Proposed Projects

The Investment Financing Group projects assisting between ten and fifteen companies totaling \$3.5 million in investments through the Enterprise Fund. Another thirty seed investments are possible through the Challenge Program utilizing the \$1.5 million allocated to the program.

Fiscal 2003 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Enterprise Fund:		
Artesian Therapeutics, Inc. – Montgomery County	\$ 500,000	11/22/02
Cylex, Inc. – Montgomery County	250,000	11/22/02
EKA Systems, Inc. – Montgomery County	250,000	11/11/02
Panacos Pharmaceuticals, Inc. – Montgomery County	250,000	11/22/02
Intradigm Corporation – Montgomery County	200,000	12/19/02
PEM Technologies, Inc. – Montgomery County	250,000	12/19/02
Subtotal	\$ 1,750,000	
Challenge Program:		
ReProtect, LLC – Baltimore City	\$ 50,000	7/12/02
Expression Pathology, Inc. – Montgomery County	50,000	8/12/02
EyeTel Imaging, Inc. – Montgomery County	100,000	8/19/02
EKA Systems, Inc. – Montgomery County	50,000	8/30/02
Quvia, Inc. – Frederick County	50,000	9/13/02
Arifacts Software, Inc. – Baltimore City	50,000	10/18/02
20/20 Gene System – Montgomery County	50,000	11/13/02
Business Services, Inc. – Howard County	50,000	11/13/02
Sphere Softward Corp. – Howard County	50,000	12/20/02
Subtotal	\$ 500,000	
Total Funding	\$ 2,250,000	

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$1,100	\$1,012	\$208
REVENUE			
Investment Income	42	20	4
Loan Repayments and Interest	665	761	909
TOTAL REVENUE	707	781	913
TOTAL AVAILABLE	1,807	1,793	1,121
ENCUMBRANCES			
Loans	705	1,500	1,000
Operating Expenses	90	85	94
TOTAL ENCUMBRANCES	795	1,585	1,094
Ending Balance	\$1012	\$208	\$27

*Loans made as of 12/31/02 = \$150,000.

(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
PAYGO SF	\$8.000	\$1.500	\$1.000	\$0.750	\$0.800	\$0.800	\$0.800

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2004 Proposed Projects

The department anticipates fully utilizing the \$1.0 million in special funds on an unspecified number of projects. Pipeline data provided by the department for program activity through January 2003 only indicates one project in the amount of \$250,000 in the program's prospects pipeline.

Fiscal 2003 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
CR Dynamic & Associates – Baltimore City	\$ 150,000	9/5/02

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increasing to \$20.0 million annually thereafter through fiscal 2008. The Governor's fiscal 2004 budget plan also includes the transfer \$2.0 million of available fund balance to the State general fund by the close of fiscal 2003. **DLS advises that the proposed transfer should not negatively impact the program's ability to function due to the large fund balance that currently exists in the revolving fund.**

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2044 Estimated</i>
Beginning Balance	\$27,022	\$28,891	\$18,327
REVENUE			
General Funds	11,250	2,000	0
Investment Income	1,538	289	183
Loan Interest, Repayments and Other	17,132	14,641	14,173
Transfers From Other Funds	50	0	0
Transfers Out	-8,500	-2,000	0
TOTAL REVENUE	21,470	14,930	14,356
TOTAL AVAILABLE	48,492	43,821	32,683
ENCUMBRANCES			
Loans, Grants & Investments	30,623	28,000	30,000
Cancelled Encumbrances	-12,699	-4,200	-4,500
Operating & Indirect Expenses	1,677	1,694	1,731
TOTAL ENCUMBRANCES	19,601	25,494	27,231
Ending Balance	\$28,891	\$18,327	\$5,452

*Loans made as of 12/31/02 = \$10,763,404.

(\$ in Millions)

<i>Description</i>	<i>2002* Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
PAYGO GF	\$11,250	\$2.000	\$0.000	\$10.000	\$20.000	\$20.000	\$20.000
PAYGO SF	18,781	30.000	25.500	11.550	15.750	15.750	15.750
Total	\$30031.000	\$32.000	\$25.500	\$21.550	\$35.750	\$35.750	\$35.750

*The original general fund appropriation was \$15.0 million before the impact of the embargo of \$3,750,000.

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2004 Proposed Projects

The department expects to manage the activity level for fiscal 2004 by funding approximately \$30 million in project loan, grants, conditional grants, and investments. Should additional financing opportunities be available, the department could use the budget amendment process to increase its special fund appropriation by making use of available fund balances.

Fiscal 2003 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Mack Truck, Inc. – Washington County – (capability 1 loan)	\$3,000,000	11/12/02
MEDCO/Esskay Project – Balt. City – (capability 2 Brownsfield grant)	30,000	10/03/02
NCO Group, Inc. – Balt. City – (capability 2 conditional grant)	500,000	11/06/02
Lenox, Inc. – Washington County – (capability 2 conditional loan)	150,000	08/19/02
Sierra Military Health Services – Balt. City (capability 2 conditional loan)	300,000	10/30/02
Phenix Technologies, Inc. – Garrett County (capability 2 conditional loan)	250,000	11/06/02
VPI Mirrec, LLC – Wicomico County – (capability 2 grant)	200,000	07/12/02
Charming Shoppes, Inc. – Balt. County – (capability 2 loan)	1,500,000	07/19/02
Trahan, Burden & Charles – Balt. City – (capability 2 loan)	250,000	12/06/02
Morgan Stanley & Co. – Balt. City – (capability 2 loan)	1,000,000	12/19/02
City of Aberdeen – Harford County – (capability 3 grant)	31,500	08/23/02
BDC feasibility study – Balt. City – (capability 3 grant)	105,000	08/26/02
BDC Belvedere Holdings – Balt. City – (capability 3 grant)	1,000,000	08/28/02
Allegany County Commissioners – Allegany County – (capability 3 grant)	2,000,000	08/30/02
Queen Anne's County feasibility study – (capability 3 grant)	10,000	09/04/02
BDC north shore promenade – (capability 3 grant)	1,000,000	09/13/02
MEDCO/McIntosh Run Golf – St. Mary's County – (capability 3 grant)	400,000	09/23/02
Town of Hurlock – Dorchester County feasibility study – (cap. 3 grant)	125,000	09/30/92
Cecil County Commissioners – (capability 3 grant)	600,000	10/04/02
Carroll County Commissioners feasibility study – (capability 3 grant)	52,500	10/30/02
BDC centerpoint project – Balt. City – (capability 3 grant)	1,000,000	11/06/02
Salisbury – Wicomic Economic Deveopment – (capability 4 grant)	203,104	09/30/02
Somerset County revolving loan fund – (capability 4 grant)	250,000	10/04/02
Montgomery County revolving loan fund – (capability 4 grant)	250,000	12/06/02

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<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Schwab, LLC – Cecil County – (capability 5 brownsfield conditional grant)	18,900	08/02/02
Highland Town Bakery Facility – Balt. City–(cap 5 brownsfield cond grant)	22,000	08/12/02
Clipper Redevelopment Corp. – Balt. City-(cap 5 brownsfield cond grant)	45,400	11/06/02
Total	\$10,763,404	

T00F - Department of Business and Economic Development - PAYGO

Comments: The fiscal 2004 allowance provides \$750,000 in general funds. The 2003 CIP presents a very revised forecast for the future funding of MCAFF than what was presented in the 2002 CIP. Rather than ending general fund support for the program beginning with fiscal 2005 and funding the program strictly with special fund revenues as proposed in the 2002 CIP, the 2003 CIP indicates ongoing general fund support for the foreseeable future and no special fund revenues supporting the program. This change reflects the fact that MCAFF will not have special funds available for loan activity because the program is not forecasted to generate sufficient special fund revenue in excess of administrative costs. Consequently, for the program to continue providing loans, general fund support will be needed on an annual basis.

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$1,476	\$1,248	\$505
REVENUE			
General Funds	1,275	800	750
Investment Income	43	35	18
Loan Repayments and Interest	84	275	273
Transfer Out	0	-621	0
TOTAL REVENUE	1,402	489	1041
TOTAL AVAILABLE	2,878	1,737	1,546
ENCUMBRANCES			
Loans	876	450	500
Operating & Indirect Expenses	754	782	815
TOTAL ENCUMBRANCES	1,630	1,232	1,315
Ending Balance	\$1248	\$505	\$231

*Loans made as of 12/31/02 = \$333,200.

(\$ in Millions)

<i>Description</i>	<i>2002* Approp.</i>	<i>2003** Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
PAYGO GF	\$1.275	\$0.629	\$0.750	\$1.000	\$1.000	\$1.200	\$0.000
PAYGO SF	0.000	0.200	0.000	0.000	0.000	0.000	0.000
Total	\$1.275	\$0.829	\$0.750	\$1.000	\$1.000	\$1.200	\$0.000

*The original general fund appropriation was \$1.8 million before the impact of the embargo in the amount of \$525,000.

**The original general fund appropriation was \$800,000 before the impact of the embargo in the amount of \$171,000.

Issues

1. MCAFF Program Should Be Discontinued

Due to the excessive cost of administering MCAFF and the relative small number of loans that are provided by the program and do not generate special fund revenues in excess of what it costs to operate, DLS recommends that the MCAFF program no longer be funded and that consideration be given to eliminating the program through the Budget Reconciliation and Financing Act (BRFA) of 2003.

Over the past couple of sessions, DLS has advised the committees that State grant and loan programs similar to MCAFF are available to assist small businesses. For instance, MSBDF is charged with meeting a number of business finance needs, including financing to businesses unable to obtain funds from traditional lenders. The Neighborhood Business Development Program (NBDP), administered by the Department of Housing and Community Development, also provides loans under circumstances very similar to those made under MCAFF. The geographic limitations to funding under NBDP may be somewhat more restrictive (“designated revitalization areas” as opposed to “priority funding areas”), but the purpose, targeted clientele, and term of assistance are similar.

Perhaps more important than the program overlap that exists is the fact that the program is very costly to administer and does not provide an effective or efficient means of assisting small business. At its present and proposed funding level, MCAFF will never be able to service more than a dozen or so businesses which pales in comparison to the support that private institutions can bring to the market. As a program of last resort, MCAFF still only provides a small number of financing opportunities for small businesses and does so at a great cost. Under its current format, MCAFF costs upwards of \$800,000 annually to operate but generates less than \$300,000 in annual loan repayments and interest. The five-year projection for the program indicates that MCAFF will continue to cost more to operate than it returns in revenues and as a result will require a general fund appropriation for both loan financing and administrative expenses.

Finally, DBED has advised that it should be expected that the risk of loan default is higher for loans structured under MCAFF due to the clientele served. This potentially adds to the cost of the program once loan defaults are deducted from annual revenues. Furthermore, the inherent risks associated with providing loans to a clientele that can not obtain traditional financing through a banking institution adds to the program operating costs and the time it takes to move a loan through the approval process. The current loan portfolio includes 4 loans that have been charged-off from the total of 37 loans that have been provided since inception of the program. While this is not an excessively high number, most of the loans provided have not been on the books for more than a year, and additional defaults are likely to occur. DLS advises that the department should consider more efficient mechanisms for assisting the needs of small business such as providing additional resources to the network of small business development centers.

DLS believes that there is insufficient justification to warrant the continuation of MCAFF. Accordingly, DLS recommends that this program not be funded and that consideration be given to eliminating the program. DLS advises that legislation is required to eliminate MCAFF. This can be accomplished through an anticipated budget reconciliation bill that the administration will

need to submit to effectuate other changes proposed in the Governor's budget plan.

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete funding for the Maryland Competitive Advantage Financing Fund (MCAFF). The Department of Legislative Services recommends elimination of the MCAFF program. Administration of this program is very costly, in excess of \$800,000 annually, and only provides financing to roughly fifteen companies at its current and proposed appropriation level. Less costly and more efficient methods for assisting small businesses should be explored by the Department of Business and Economic Development. Legislation is required to eliminate the program's statutory authority and this can be accomplished through a budget reconciliation bill which is expected to be introduced by the administration for consideration during the 2003 session.	\$750,000	GF
Total General Fund Reductions	\$750,000	

Fiscal 2004 Proposed Projects

The department expects the MCAFF program to continue to mature and produce a greater number of applications and approvals in fiscal 2004 than in previous years. The department expects loan applications and approvals to exceed \$1.5 million in fiscal 2004 which is far greater than what the program can actually fund due to the high cost of administering the program.

Fiscal 2003 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Chesapeake Design and Decorations – Kent County	\$50,000	08/05/02
Benjamin & Barbara Jenkins – Charles County	100,000	08/27/02
AFM Heating & Cooling – Baltimore County	33,200	11/25/02
Carol A. Volz d/b/a Edgemere Beauty – Baltimore County	50,000	12/31/02
Joseph & Judith Norris	100,000	12/31/02
Total	\$333,200	

Smart Growth Economic Development Infrastructure Fund (One Maryland)

GO Bonds	\$7,500,000	Recommendation:	Reduce \$2,500,000 GO Bonds
PAYGO SF	500,000		

Bill Text: Provide funds to jurisdictions defined as economically distressed for infrastructure and capital improvements related to the location or expansion of companies in those areas, and which can be re-loaned to companies locating or expanding in those areas for infrastructure and capital improvements. These funds shall be administered in accordance with Article 83A, Section 5-701.

Program Description: Through the Smart Growth Economic Development Infrastructure Fund, commonly referred to as the One Maryland fund, the State can provide grants, loans, or equity investments to qualified distressed jurisdictions or to the Maryland Economic Development Corporation for projects located in qualified distressed jurisdictions. The funds can be used to finance the cost of acquisitions, improvements, and rehabilitation of land for industrial sites and parks, development of water and sewer lines, shell buildings, infrastructure serving existing retail and office oriented centers occupying at least 400,000 on a limited basis of no more than one per jurisdiction, and other needed infrastructure projects. The objective is to aid in the expansion of existing businesses and the attraction of new business to the qualified jurisdiction. To qualify as a distressed jurisdiction, a county or Baltimore City must have developed a local strategic plan for economic development that has been approved by the Secretary of DBED. In addition, the jurisdiction must have an average rate of unemployment for the most recent 18-month period for which data are available greater than 150% of the average rate of unemployment for the entire State during the same reporting period, or average per capita income equal to or less than 67% of the average personal per capita income for the entire State. Currently, seven jurisdictions qualify as distressed jurisdictions: Baltimore City, and Allegany, Caroline, Dorchester, Garrett, Somerset, and Worcester counties.

Year Program Began: 2000

Comments: The fiscal 2004 allowance provides a total of \$8.0 million of State funding and consists of \$7.5 million in GO bonds and another \$500,000 in special funds. The use of GO bonds as opposed to general funds represents a departure from the past appropriation in PAYGO funds. The level of funding is less than what was recommended in last years CIP, but is greater than what was appropriated for fiscal 2003. The Governor's budget plan includes the transfer of \$2,550,000 of available fund balance to the State general fund by the end of fiscal 2003. Legislation is required to effectuate this transfer. **Should enacted legislation include the full amount of the proposed transfer, the department will have to use a portion of the fiscal 2004 funds to fully fund the current commitments.**

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$10,587	\$25	\$80
REVENUE			
GO Bonds	0	0	7,500
General Funds	7,500	7,500	0
Investment Income	235	355	406
Transfer Out	-2,000	-2,550	0
TOTAL REVENUE	5,735	5,305	7,906
TOTAL AVAILABLE	16,322	5,330	7,986
ENCUMBRANCES			
Loans	16,297	5,250	7,750
Operating Expenses	0	0	0
TOTAL ENCUMBRANCES	16,297	5,250	7,750
Ending Balance	\$25	\$80	\$236

*Loans made as of 12/31/02 = \$7.6 million.

(\$ in Millions)

<i>Description</i>	<i>2002* Approp.</i>	<i>2003** Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
GO Bond	\$0.000	\$0.000	\$7.500	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO GF	7.500	4.950	0.000	0.000	0.000	0.000	0.000
PAYGO SF	0.300	0.200	0.500	0.000	0.000	0.000	0.000
Total	\$7.800	\$5.150	\$8.000	\$0.000	\$0.000	\$0.000	\$0.000

*The original general fund appropriation was \$10.0 million prior to the embargo of \$2.5 million.

**The original general fund appropriation was \$7.5 million prior to the embargo of \$2.55 million.

Issues

1. One Maryland Program to Sunset at the End of Fiscal 2004 – Continuation Uncertain

When established by Chapter 304, Acts of 1999 the program was intended to be a five-year program with annual funding of \$10 million through fiscal 2004. The program is scheduled to sunset effective June 30, 2004, without further action by the General Assembly. The impact of embargoes, fund transfers, and legislative reductions has resulted in \$33.0 million in total funding since inception as compared to a planned \$40.0 million through fiscal 2003. The fiscal 2004 budget as proposed by the Governor continues the funding commitment but again at a reduced amount of \$7.5 million in GO bonds which would raise the total amount of funds committed to the program to \$40.5 million or \$9.5 million less than what was planned when the program was established.

DLS recommends a \$2.5 million reduction in the amount of GO bonds provided for fiscal 2004. This level of funding will enable the department to fully finance its current level of commitments, which currently exceed available funding by approximately \$1.0 million, fund the one project in the program's prospect pipeline estimated at \$1.0 million, and provide approximately \$3.5 million of funding for projects that have not yet been identified by the department. Should demand for program assistance exceed available resources, the administration can consider submitting a deficiency appropriation in the 2004 session in the event funds are available. The timing of the request for additional funds would coincide with the consideration of the program's future.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce the level of GO bond fund provided for fiscal 2004 from \$7.5 million to \$5.0 million. This will enable the department to fully fund the project commitments it has already made. Currently, the program is over-extended by \$1.0 million. Funding at the \$5.0 million level will also provide the department with sufficient funds to finance the one project that does appear in the program's prospects pipeline in the amount of \$1.0 million. Taken together, this will still provide the program with \$3.5 million of GO bond funds to make new fiscal 2004 project commitments. Should demand for program assistance exceed available resources, the administration can consider submitting a deficiency appropriation in the 2004 session when consideration of the program's future will need to be addressed.	\$2,500,000	GO
Total General Obligation Fund Reductions	\$2,500,000	

Fiscal 2004 Proposed Projects

At this time, specific projects have not been identified for funding. The department anticipates soliciting proposals from the qualified jurisdictions. However, the prospect pipeline does include one project estimated at \$1.0 million.

Fiscal 2003 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Commissioners of Caroline County – conditional loan	\$250,000	08/06/02
MEDCO/Keyser Ridge Industrial Park – investment	2,500,000	09/24/02
Commissioners of Caroline County/Ridgely Industrial - loan	1,250,000	08/06/02
Mayor and City Council of Baltimore – Mondawmin Mall - loan	3,600,000	10/29/02
Total	\$ 7,600,000	

Sunny Day Fund

PAYGO GF **\$3,000,000** **Recommendation:** **Reduce \$3,000,000**

Program Description: This program is designed to allow the State 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. Assistance from this fund is flexible, consisting of grants, loans, or conditional grants or loans; all proposals are required to include performance requirements based on expected job creation, private investment, or other measures of economic development. Transfers from the fund are subject to the approval of the Legislative Policy Committee (LPC). The legislation consolidating DBED's financing programs, Chapter 305, Acts of 2000, allows DBED to make equity investments in addition to grants, loans, and conditional loans. In addition, the fund now charges for administrative, legal, or actuarial expenses incurred in connection with transactions under the fund.

Year Program Began: 1988

Comments: After having not received an appropriation for fiscal 2003, the Sunny Day fund is provided with \$3.0 million in general funds in the Governor's fiscal 2004 budget. This level of funding is consistent with what was planned in the five-year 2002 *Capital Improvement Program (CIP)*. The 2003 CIP indicates that general fund support for the program will increase to \$5.0 million in fiscal 2005 and \$10 million annually thereafter through fiscal 2008. Due to a reduction in project activity during the past several years, a significant fund balance now exists in the fund to support projects in the Sunny Day pipeline. As a result, DLS recommends that the \$3.0 million in proposed funding be deleted and consideration be given to transfer a portion of the unencumbered fund balance at the end of fiscal 2003. These recommendations are discussed more fully in the Issues section.

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$13,809	\$21,090	\$2,322
REVENUE			
General Funds	11,625	0	3,000
Loan Repayments and Interest	4,763	2,796	4,427
Other Income	137	0	0
Transfers Out	-7,500	0	0
TOTAL REVENUE	9,025	2,796	7,427
TOTAL AVAILABLE	22,834	23,886	9,749
ENCUMBRANCES			
Grants & Loans	4,250	22,750	9,000
Cancelled Encumbrances	-3,788	-2,500	-2,500
Operating & Indirect Expenses	1,282	1,314	1,327
TOTAL ENCUMBRANCES	1,744	21,564	7,827
Ending Balance	\$21,090	\$2,322	\$1,922

*Loans made as of 12/31/02 = \$5.5 million in new funding and \$1.0 million in funding rescissions.

(\$ in Millions)

<i>Description</i>	<i>2002* Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
PAYGO GF	\$11.250	\$0.000	\$3.000	\$5.000	\$10.000	\$10.000	\$10.000

*The original appropriation was \$15.0 million before the impact of the embargo in the amount of \$3,750,000.

Issues

1. Diminished Use of Sunny Day Fund

DBED's utilization of the Sunny Day Fund as an economic development stimulus tool has diminished significantly in the last two years. As shown in **Exhibit 1**, the Legislative Policy Committee (LPC) has approved ten Sunny Day conditional grants and loans totaling \$17,450,000 during fiscal 2001 and 2002 and through the first half of fiscal 2003. However, during the same period, a total of nine projects were rescinded, and another two reduced in funding scope at the request of the respective companies. These revisions and modifications, which represent \$12,429,000 in rescinded approvals, reduce the total amount of committed Sunny Day funds to a net of just \$5,021,000 for fiscal 2001, 2002, and the first half of fiscal 2003 combined. Fund activity was so subdued during fiscal 2002 that \$5.5 million in rescissions was only matched by \$1.25 million in new commitments.

Exhibit 1

Sunny Day Fund Commitments and Cancellations

Fiscal 2001 through 2003

<u>LPC Meeting Date</u>	<u>Funds Committed</u>	<u>Funds Cancelled</u>
December 2000	\$8,700,000	-\$1,141,000
June 2001	2,000,000	-4,800,000
December 2001	0	-588,000
June 2002	1,250,000	-4,900,000
January 2003	5,500,000	-1,000,000
Total	\$17,450,000	-\$12,429,000
Net Encumbrances		\$5,021,000

Source: Department of Legislative Services

The Sunny Day Fund typically receives an annual appropriation of general funds. As shown in **Exhibit 2**, the aggregate appropriation to the fund was \$17,250,000 for fiscal 2001 through 2003. This level of funding was attained despite the fact that a \$10 million negative deficiency appropriation reduced the fiscal 2001 appropriation to \$5.5 million, the 2002 BRFA reduced the fiscal 2002 appropriation by \$3,750,000, and no appropriation was made to the fund in the fiscal 2003.

Exhibit 2

**Sunny Day Fund Appropriations
Fiscal 2001 through 2003**

	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>
General Fund Appropriation	\$5,500,000	\$11,750,000	\$0

Source: Fiscal 2001 through 2003 State Budgets

The Sunny Day Fund is a revolving special fund, thus cancelled encumbrances and repayments of principal and interest of loans made by the fund are returned to the fund and available for future disbursement. The combination of cancelled encumbrances and recent lack of new funding commitments leaves the fund with an estimated unencumbered balance of \$17.1 million as of February 1, 2003. The program pipeline indicates four significant projects totaling \$20.5 million in potential investments and conditional grants in the prospects pipeline – meaning that a proposal letter has been sent but not accepted to date. However, it is unclear what state of readiness any of these projects is at this time. Furthermore, three of the four projects involve the construction of very large and expensive wet lab and technology parks in collaboration with State universities, and it may take a significant amount of time before funds will be needed to support these projects. The amount of funds available for fiscal 2004 is predicated upon how ready these projects are for LPC consideration. The downturn in the economy and the recent consolidation of DBED’s financing program which directs more funding proposals to the department’s Maryland Economic Development Assistance Authority Fund and reserves the use of the Sunny Day Fund for truly extraordinary opportunities have impacted the way the Sunny Day Fund is utilized. The General Assembly may wish to consider potential alternative uses for the balance in the Sunny Day Fund should grant and loan activity from the fund continue to be diminished in fiscal 2004.

DBED should brief the budget committees on the likelihood that some or all of the projects listed in the Sunny Day project pipeline will require funding within the next 18 months. Moreover, DLS makes the following recommendations: (1) delete the \$3.0 million of proposed fiscal 2004 general funds. There exists a significant fund balance from which to fund projects during the remainder of fiscal 2003 and through 2004 alleviating the need for additional funds and (2) transfer \$10.0 million of available fund balance to the State general fund. This would leave approximately \$10.1 million available for fiscal 2004 after accounting for anticipated fiscal 2004 loan repayment and interest revenue. Should it be necessary to increase the amount of available funds for use during fiscal 2004 due to project readiness of the project in the pipeline, the administration could provide a deficiency appropriation with the fiscal 2005 budget submission. These funds, if appropriated, would then become available in April 2004 in time for LPC consideration prior to the end of fiscal 2004.

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete general fund support for the Economic Development Opportunities Program Fund (Sunny Day Fund). A general fund appropriation for the Sunny Day Fund is unnecessary for fiscal 2004 due to a large fund balance estimated at \$17.0 million that currently exists and is likely to be available for use during the fiscal year. The program will also be able to make use of special fund revenues of approximately \$3.1 million after deducting for administrative expenses.	\$3,000,000	GF
Total General Fund Reductions	\$3,000,000	

Fiscal 2004 Proposed Projects

Demand for the Sunny Day funds has declined as the expanded capabilities under the consolidated MEDAFF program have funded a number of projects that would have previously been funded through Sunny Day. The department lists four projects in the program pipeline that would if approved could potentially total \$20.5 million in funding requests. It is unclear from the pipeline when or if these projects will be brought to the Legislative Policy Committee for approval.

Fiscal 2003 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Morgan Stanley/Project Chemical – Baltimore City	\$3,500,000	01/14/03
Volvo/Mack Truck – Washington County	2,000,000	01/14/03
Total	\$5,500,000	
Multi-Year Commitments:		
Digex, Inc.	\$1,000,000	

Object/Fund Difference Report
 Department of Business and Economic Development - PAYGO

<u>Object/Fund</u>	<u>FY 02 Actual</u>	<u>FY 03 Working Appropriation</u>	<u>FY 04 Allowance</u>	<u>FY 03 - 04 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, Contr	\$ 20,862,271	\$ 0	\$ 3,000,000	\$ 3,000,000	N/A
14 Land & Structures	64,228,784	66,700,000	51,975,000	-14,725,000	-22.1%
Total Objects	\$ 85,091,055	\$ 66,700,000	\$ 54,975,000	-\$ 11,725,000	-17.6%
Funds					
01 General Fund	\$ 33,356,250	\$ 16,880,000	\$ 10,975,000	-\$ 5,905,000	-35.0%
03 Special Fund	51,734,805	49,820,000	44,000,000	-5,820,000	-11.7%
Total Funds	\$ 85,091,055	\$ 66,700,000	\$ 54,975,000	-\$ 11,725,000	-17.6%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

Fiscal Summary
Department of Business and Economic Development - PAYGO

<u>Unit/Program</u>	<u>FY 02 Actual</u>	<u>FY 03 Legislative Appropriation</u>	<u>FY 03 Working Appropriation</u>	<u>FY 02 - 03 % Change</u>	<u>FY 04 Allowance</u>	<u>FY 03 - 04 % Change</u>
09 Maryland Small Business Development Financing Authority	\$ 16,576,455	\$ 8,175,000	\$ 18,000,000	8.6%	\$ 19,225,000	6.8%
17 Investment Finance Group - Capital Appropriation	7,989,932	6,500,000	6,500,000	-18.6%	5,000,000	-23.1%
21 Maryland Economic Adjustment Fund – Capital Appropriation	705,000	1,500,000	1,500,000	112.8%	1,000,000	-33.3%
23 Maryland Economic Development Assistance Fund	30,622,552	32,000,000	32,000,000	4.5%	25,500,000	-20.3%
24 Maryland Competitive Advantage Financing Fund	1,275,000	1,000,000	1,000,000	-21.6%	750,000	-25.0%
25 Smart Growth Economic Development Infrastructure	16,297,116	7,700,000	7,700,000	-52.8%	500,000	-93.5%
01 Economic Development Opportunities Program Fund	11,625,000	0	0	-100.0%	3,000,000	
Total Expenditures	\$ 85,091,055	\$ 56,875,000	\$ 66,700,000	-21.6%	\$ 54,975,000	-17.6%
General Fund	\$ 33,356,250	\$ 16,880,000	\$ 16,880,000	-49.4%	\$ 10,975,000	-35.0%
Special Fund	51,734,805	39,995,000	49,820,000	-3.7%	44,000,000	-11.7%
Total Appropriations	\$ 85,091,055	\$ 56,875,000	\$ 66,700,000	-21.6%	\$ 54,975,000	-17.6%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.