

**T00**  
**Department of Business and Economic Development**

***Operating Budget Data***

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(\$ in Thousands)

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Approp</u>	<u>FY 04</u> <u>Allowance</u>	<u>FY 03-04</u> <u>Change</u>	<u>FY 03-04</u> <u>% Change</u>
General Funds	\$61,949	\$58,248	\$55,709	-\$2,538	-4.4%
FY 2003 Cost Containment	0	-3,187	0	3,187	
Contingent & Back of Bill Reductions	0	-15	-2,368	-2,353	
<b>Adjusted General Funds</b>	<b>\$61,949</b>	<b>\$55,046</b>	<b>\$53,342</b>	<b>-\$1,704</b>	<b>-3.1%</b>
Special Funds	11,993	11,671	8,685	-2,986	-25.6%
Contingent & Back of Bill Reductions	0	-4	-27	-23	
<b>Adjusted Special Funds</b>	<b>\$11,993</b>	<b>\$11,667</b>	<b>\$8,658</b>	<b>-\$3,009</b>	<b>-25.8%</b>
Federal Funds	620	528	560	32	6.0%
Contingent & Back of Bill Reductions	0	0	-1	-1	
<b>Adjusted Federal Funds</b>	<b>\$620</b>	<b>\$528</b>	<b>\$558</b>	<b>\$31</b>	<b>5.8%</b>
Reimbursable Funds	836	484	398	-86	-17.8%
<b>Adjusted Grand Total</b>	<b>\$75,398</b>	<b>\$67,724</b>	<b>\$62,956</b>	<b>-\$4,768</b>	<b>-7.0%</b>

- Cost containment includes the reversion of \$2.5 million from the Maryland Tourism Development Board that should not have been counted as cost containment.
- The Governor's budget provides language reducing the budget for the Maryland State Arts Council.
- The Maryland Technology Development Corporation no longer funded through the department – funding is now provided as an operating grant through the Board of Public Works.

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

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***Personnel Data***

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	<b><u>FY 02</u></b> <b><u>Actual</u></b>	<b><u>FY 03</u></b> <b><u>Working</u></b>	<b><u>FY 04</u></b> <b><u>Allowance</u></b>	<b><u>Change</u></b>
Regular Positions	324.00	319.00	310.00	-9.00
Contractual FTEs	48.70	43.10	41.00	-2.10
<b>Total Personnel</b>	<b>372.70</b>	<b>362.10</b>	<b>351.00</b>	<b>-11.10</b>

***Vacancy Data: Regular Positions***

Budgeted Turnover: FY 04	11.35	3.66%
Positions Vacant as of 12/31/02	9.70	3.04%

- In accordance with Section 20 of the fiscal 2003 budget bill nine regular positions have been abolished. The allowance also reduces the number of contractual full-time equivalents by 2.1.
- The department's budgeted turnover rate of 3.66% requires an average of 11.35 positions remain vacant throughout the fiscal year to achieve the \$798,754 in savings required. After adjusting for the abolishment of 9 positions, the department's current number of vacant positions is 9.70 as of December 31, 2002. Additional vacancies will be needed to meet the budget requirement. Due to the statewide hiring freeze in effect, the Department of Business and Economic Development (DBED) should experience additional vacancies during fiscal 2004, which will allow the department to meet the budgeted turnover requirement.

## *Analysis in Brief*

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### Major Trends

***Audit of Managing for Results Performance Measures:*** The Department of Legislative Services (DLS), Office of Legislative Audits conducted a performance audit of selected performance measures provided in the Department of Business and Economic Development's (DBED) annual Managing for Results documentation. The audit concluded that the department was not providing accurate and reliable data.

***Performance Measures Indicate Declining Investment:*** Many of the performance measures associated with job creation and retention, and State and private investment activity indicate that the sluggish economy is affecting the level of business investment.

***Tourism Measures Buck Trend:*** The performance measures associated with the State's tourism industry are presented as evidence of the success of the department's tourism activities. These run counter to the measures indicating declining business investment and appear to only measure growth in spending and tax revenues that may be attributable to more than the direct activities of the department.

### Issues

***Summary of Major Grants – Reductions to Discretionary Grants Recommended:*** The fiscal 2004 allowance provides over \$24.4 million to support various grants administered by DBED. The structural imbalance between the State's general fund revenues and expenditures makes providing discretionary grants difficult. **The Department of Legislative Services (DLS) summarizes the grants distributed by DBED and makes recommendations to reduce certain grants.**

***Consolidation with the Department of Housing and Community Development:*** Many of the functions performed by DBED and the Department of Housing and Community Development serve similar clients and duplicate effort. **DLS recommends language directing that the departments prepare and submit a report on the potential strategies and benefits for consolidating the departments.**

***Report Suggests the State Increase Funding for Tourism:*** Chapter 613, Acts of 2001 required the Office of Tourism Development to provide the legislature with a report on the development of the tourism industry. The report recommends that the State increase its funding for tourism activities. A report submitted to the budget committees prior to the 2002 session, identified several alternative funding sources for the State's tourism offices. **DLS recommends that the department brief the committees on the pros and cons of the alternative funding sources.**

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***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, DLS recommends elimination of the program and the deletion of the operating costs charged to administer the program.**

**Recommended Actions**

	<u>Funds</u>	<u>Positions</u>
1. Add budget language to require a report on re-allocating the functions of the Department of Housing and Community Development to the Department of Business and Economic Development.		
2. Delete funding for staff development activities.	\$ 57,883	
3. Reduce general funds for grants in the Division of Business Development.	160,800	
4. Delete all funds and positions supporting the Maryland Competitive Advantage Financing Fund.	254,147	3.0
5. Delete fund for public safety guides in Baltimore City.	100,000	
6. Reduce general fund grant expenditures in the Maryland State Arts Council.	2,901,605	
7. Reduce general funds for Division of Regional Development grants.	1,000,000	
<b>Total Reductions</b>	<b>\$ 4,420,435</b>	<b>3.0</b>

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**Department of Business and Economic Development**

***Operating Budget Analysis***

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**Program Description**

The mission of the Department of Business and Economic Development (DBED) is to stimulate and strengthen the Maryland economy through the development and implementation of programs that 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 (1) increase business investment in Maryland; (2) enhance business success and/or the competitiveness of businesses in their distinct markets; and (3) continue to develop a diverse economic base and ensure that all jurisdictions share in the State's economic vitality. The department's mission and primary goals are supported by six divisions:

- ***Office of the Secretary:*** The division provides leadership and direction to the activities of the department and maintains working relationships with local, State, and federal agencies; county and municipal governments; and business organizations. The division includes the Deputy Secretary, Governor's Office of Business Advocacy, Maryland Economic Development Commission, Offices of the Attorney General, Communications Office, Equal Opportunity Office, Internal Audits, and Office of Economic Policy and Legislation.
- ***Office of Administration and Information Technology:*** The division provides administrative and technical support services for the department.
- ***Division of Business Development:*** The division provides site selection assistance to new or expanding businesses, produces market data and economic studies, and promotes international trade opportunities to Maryland firms.
- ***Division of Financing Programs:*** The division manages the overall direction and supervision of a variety of programs that promote economic development opportunities. Program resources are directed to targeted market segments of commercial and industrial businesses by providing financing incentives or credit enhancements.
- ***Division of Tourism, Film, and the Arts:*** The division promotes economic development by enhancing the attractiveness of cultural activities, historical sites, recreational centers, and sites for film and television production. Programs include the Office of the Assistance Secretary, Office of Tourism Development, Maryland Tourism Board, Maryland Film Office, and the Maryland State Arts Council.
- ***Division of Regional Development:*** The division supports the economic health and growth of communities by providing assistance designed to improve the quality, productivity, and competitive

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position of new and existing State businesses, ensure continued federal investment, support strategic planning, and improve the overall business climate. Five functions support the division: In-state Business Services; Military Affairs; Community Development; World Class Consortia; and Grants Administration.

**Performance Analysis: Managing for Results**

**Performance Audit of Managing for Results Measures: Real Imaginary Numbers**

The Department of Legislative Services (DLS), Office of Legislative Audits (OLA) conducted a performance audit of 16 DBED Managing for Results (MFR) performance measures to try to determine the accuracy of certain fiscal 2001 measures. OLA reported its findings, conclusions, and recommendations on July 22, 2002. OLA concluded that DBED did not have comprehensive quality control processes in place to ensure the accuracy of the reported results. Of the 16 measures tested, 12 were designated as Factors Prevented Certification and 4 were designated as inaccurate. **Exhibit 1** shows the designation categories and results. A detailed summary of OLA’s findings and comments can be found in **Appendix 4**.

**Exhibit 1**

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**Level of Certification Categories and Findings**

<b><u>Measures Audited</u></b>	<b><u>Certified</u></b>	<b><u>Certified with Qualifications</u></b>	<b><u>Factors Prevented Certification</u></b>	<b><u>Inaccurate</u></b>
16	0	0	12	4

Sources: Department of Legislative Services, Office of Legislative Audits – Managing for Results – fiscal 2001 Performance Measures; Department of Business and Economic Development July 2002

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OLA identified two contributing factors that led to its results: (1) DBED did not have procedures in place to ensure that reported results were presented in a manner consistent with the performance measures; and (2) quality control processes were either not in place or were not functioning as intended to allow for reliable and accurate data. OLA made three recommendations to the department to improve the quality control process over the audited measures:

- Ensure the performance measure results reported are consistent with descriptions in the annual operating budget request.
- Retain appropriate supporting documentation for ensuring the reliability of data used to calculate performance measure results.

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- Independently verify the accuracy of calculations used to determine performance measures.

Included in the audit report is the department’s response to each of performance measure certifications. In most instances, the department agreed completely or partially with the finding that many of the statistics labeled as actual were really projects. In these instances, the department agreed that it would make changes to improve the accuracy of the data and correctly report data as actual or estimated. However, the department maintained that for many of the performance measures audited, its current practice of reporting data is the most appropriate, consistent, and accurate method of reporting outcome results.

The inability of the department to accurately compile and report performance data used to measure and demonstrate the achievement of its articulated goals suggests that the department is failing to follow sound business decisions in its utilization of State resources. The apparent lack of oversight of subsidized businesses and corporations makes it difficult to draw any meaningful conclusions concerning the department’s activities and suggests that subsidies may be given to companies that do not need them or do not use them as intended. Without reliable data it is difficult to establish any causal relationship between the department’s spending and public benefits.

**The department should be prepared to brief the committees concerning what changes if any it has implemented to improve the accuracy and reliability of the performance measures reported in the department’s annual MFR submission.**

The department’s fiscal 2004 MFR submission includes changes to the departmental level goals, objectives, and performance measures. **Exhibit 2** provides a summary of these indicators.

**Exhibit 2**

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**Program Measurement Data  
Department of Business and Economic Development  
Fiscal 2001 Actual through 2004 Estimated**

	<u>FY 01</u> <u>Actual</u>	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Est.</u>	<u>FY 04</u> <u>Est.</u>	<u>FY 02-04</u> <u>Ann. Chg.</u>
<b>Goal: Increase Business Investment in Maryland</b>					
<b>Performance Measures</b>					
Total DBED funding for partner agency/organization projects (\$ in thousands)	\$32,300	\$27,541	\$25,000	\$25,000	-4.7%
Number of business projects	522	681	500	500	-14.3%
Dollar amount of total project costs projected to occur due to projects approved (\$ in thousands)	\$837,920	\$545,535	\$500,000	\$500,000	-4.3%
Number of partner agency/organization projects	1,041	1,048	1,000	1,000	-2.3%
New jobs projected to occur with the respective fiscal year’s approvals	21,393	14,477	10,000	10,000	-16.9%

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	<b><u>FY 01</u></b> <b><u>Actual</u></b>	<b><u>FY 02</u></b> <b><u>Actual</u></b>	<b><u>FY 03</u></b> <b><u>Est.</u></b>	<b><u>FY 04</u></b> <b><u>Est.</u></b>	<b><u>FY 02-04</u></b> <b><u>Ann. Chg.</u></b>
<b>Goal: Enhance Business Success and/or the Competitiveness of Businesses in Their Markets</b>					
<b>Performance Measures</b>					
Number of workers trained through DBED programs	10,015	9,999	7,300	7,300	-14.6%
Tourism advertising responses	125,394	133,152	178,571	196,428	21.5%
Retained jobs projected in the fiscal year's approvals	33,670	20,830	15,000	15,000	-15.1%
Workforce productivity change measured by sales per employee for business entities participating in DBED programs	n/a	\$23,976	\$20,000	\$20,000	-8.7%
Estimated value of export sale to Maryland companies assisted by DBED (\$ in millions)	\$24.8	\$26.0	\$24.0	\$24.0	-3.9%
Tourism conversion rate	62%	62%	62%	62%	0.0%

**Goal: Continue to Develop a Diverse Economic Base and Ensure that All Maryland Jurisdictions Share in the Economic Vitality of the State**

**Performance Measures**

Businesses and partners assisted in each Maryland region

Eastern Shore	102	120	95	95	-11.0%
Greater Baltimore	339	405	300	300	-13.9%
Southern	67	50	50	50	0.0%
Suburban	231	298	175	175	-23.4%
Western	96	76	50	50	-18.9%
Businesses assisted in eligible One Maryland jurisdictions	355	342	300	300	-6.3%
Number of DBED assisted Maryland companies that export	112	114	100	100	-6.3%
Total tourism travel expenditures (\$ in billions)	\$8.9	\$9.6	\$10.3	\$11.1	7.5%
Projected increased state & local tax revenue due to tourism sector expenditure (\$ in millions—reported on calendar year)	\$752.9	\$825.9	\$906.0	\$993.9	9.7%

Note: Numbers may not sum to total due to rounding

Source: Maryland State Budget

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In all aspects, save those for tourism-related activities, the department is anticipating reductions in investments, job creation and retention, companies assisted, and business project participation. This outlook generally reflect the state of the regions and Maryland's economy. The performance measures associated with the tourism, all of which indicate continued growth in tourism-related expenditures and tax

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receipts, raise some suspicion that the department's measures merely measure the growth in hotel/motel taxes and admission and amusement taxes but provide no indication that the department's activities are the driving force behind the increases. The department's assertion is that the activities it performs have a direct impact on tourism spending and tax receipts, when in fact other variables are most likely also contributing to the increased numbers. **The department should brief the budget committees concerning what, if any, causal relationship exists between the activities of the Division of Tourism, Film, and the Arts and increased expenditure and tax receipts, and how that relationship is empirically verifiable.**

**The department should brief the committees on the various changes that have been incorporated into its fiscal 2004 MFR and how these changes may more accurately reflect the department's impact on the State's economy and business climate.**

### **Fiscal 2003 Actions**

The fiscal 2003 cost containment measures applied to DBED are reported to total \$3.7 million, or 4.9% of the department's fiscal 2003 general fund appropriation. The specific reductions made are as follows:

- A reduction in the amount of \$2,455,000 was applied to the Maryland Tourism Development Board's (MTDB) fiscal 2003 general fund appropriation. This reduces the appropriation from \$8.5 to \$6.0 million.
- Contractual services was reduced by \$289,259 and is comprised of the following: (1) the Division of Business Development will absorb a \$190,194 reduction to funds originally designed for management studies, business recruitment, and marketing advertisement activities; (2) the Division of Regional Development's budget was reduced by \$49,560. The division will reduce its funding for regulatory research studies; (3) the Office of the Secretary and Information Technology is reduced by \$49,505 and will allocate this reduction to reduced management studies, advertising, and reductions to planned information technology upgrades.
- Grant funds budgeted for the Division of Regional Development for the Partnership for Workforce Quality and Maryland Industrial Training Program were reduced by a combined \$356,647. Division of Business Development grants, that support the World Trade Center Institute and grants to small and mid-sized companies for export trade strategy training, were reduced by a combined \$65,000.
- The Division of Financing Programs will absorb a \$513,255 reduction in capital PAYGO general fund appropriations. This reduction is split evenly between the Maryland Small Business Development Financing Authority, Maryland Enterprise Fund, and Maryland Competitive Advantage Financing Fund. Because this reduction is capital in nature, it is not reflected in the department's operating budget.

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Additionally, the fiscal 2003 cost containment reflects the reversion of approximately \$20,000 in combined general, special, and federal funds used to support free transit ridership for State employees, contingent upon the enactment of a provision in the Budget Reconciliation and Financing Acts (BRFA) of 2003.

### **Cost Containment Overstated**

Due to the manner in which the Department of Budget and Management (DBM) treated the legislatures' statutorily prescribed \$2.5 million reduction to the fiscal 2003 funding formula for MTDB – it was treated in the *Fiscal Digest* as a planned fiscal 2003 reversion as opposed to a \$2.5 million reduction in the appropriation from the \$8.5 million proposed in the Governor's fiscal 2003 budget – the cost containment measures applied to DBED overstate the actual impact of the reduction on overall State spending for fiscal 2003. The legislature increased the funding formula to MTDB through Chapters 612 and 613, Acts of 2001 to \$8.5 million annually through fiscal 2008. The Governor's fiscal 2003 budget, as submitted to the legislature, included language reducing MTDB's funding to \$6.0 million contingent upon legislation effectuating the reduction. The 2002 BRFA, Chapter 440, Acts of 2002 included a revision to Article 83A, Section 4-208(g)(2) which re-based the funding formula to include a \$6.0 million general fund appropriation for fiscals 2003 and 2004, \$7.0 million for fiscal 2005 and 2006, and back to \$8.5 million beginning in fiscal 2007 and beyond. This was done to try to create some long-term structural spending reductions in the State budget.

In connection with this issue, DLS recommends that the budget committees consider further reductions to DBED's fiscal 2003 general fund appropriation for cost containment purposes. DLS readily admits that it is difficult to ascertain whether or not DBM would have required additional reductions to DBED's fiscal 2003 budget had they not been able to use the MTDB's \$2.5 million contribution. **DLS recommends that a representative of DBM and DBED brief the committees concerning whether further cost containment reductions are warranted.**

### **Governor's Proposed Budget**

**Exhibit 3** provides the fiscal 2003 adjusted working appropriation and fiscal 2004 Governor's allowance by fund source and summarizes the major factors influencing changes in DBED's fiscal 2004 operating budget allowance. The fiscal 2004 allowance for DBED, exclusive of PAYGO and general obligation (GO) bond funds for the department's financing programs and adjusted for reductions contingent upon legislation, is \$63.0 million. This represents a reduction of \$4.8 million, or 7.0% less than what is provided in the adjusted working appropriation for fiscal 2003. Personal costs account for \$21.2 million, or approximately 33.6% of the total budget. The department has abolished nine positions in the budget; however, personnel costs still increase by roughly \$651,000 over the adjusted fiscal 2003 working appropriation. This results from a statewide increase in the cost of employee and retiree health insurance, an adjustment to the department's budgeted turnover rate, and the shift of fiscal 2002 cost containment carried forward into fiscal 2003 from the department's personnel budget to other object

**Exhibit 3**

**Governor's Proposed Budget  
Department of Business and Economic Development  
(\$ in Thousands)**

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Approp</u>	<u>FY 04</u> <u>Allowance</u>	<u>FY 03-04</u> <u>Change</u>	<u>FY 03-04</u> <u>% Change</u>
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<b>Adjusted Grand Total</b>	<b>\$75,398</b>	<b>\$67,724</b>	<b>\$62,956</b>	<b>-\$4,768</b>	<b>-7.0%</b>

**Where It Goes:**

**Personnel Expenses**

Abolished/transferred positions .....	-\$518
Cost containment funded in fiscal 2003 from increased turnover .....	422
Employee and retiree health insurance .....	408
Employee retirement system .....	48
Turnover adjustments .....	53
Other fringe benefit adjustments .....	238

**Division of Business Development**

Reduced marketing, advertising, and promotion funding for the Office of Advertising and Promotion .....	-374
Reduced funding for grants to the Maryland Israel Development Corp., World Trade Center Institute, and Small Business Foreign Trade Grants .....	-23
Elimination of one-time Biotechnology Industry Organization Conference grant .....	-95

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**Where It Goes:**

**Financing Programs – Operating**

Operating grant to the Maryland Technology Development Corporation (TEDCO) is no longer funded through DBED, but is now funded at \$2.0 million in the fiscal 2004 allowance to the Board of Public Works (BPW) .....	-2,750
Grant for the Maryland Technology Transfer Fund (MTTF), formally known as the Maryland Industrial Partnership Program, is now funded through TEDCO .....	-200

**Division of Tourism, Film, and the Arts**

Expiration of grant to the Baltimore Area Convention and Visitors Association.....	-250
Expiration of grant to the Ward Waterfowl Museum.....	-100
Reduced overall general funding for the Office of Tourism Development – the budget provides the statutory minimum of \$6.48 million – reductions have been made to the marketing budget for the Advertising and Communications Office.....	-220
Reduced advertising, marketing, and promotional funds for the Maryland Film Office	-217

**Division of Regional Development**

Reduced funding for Partnership for Workforce Quality (PWQ) and Maryland Industrial Training Partnership (MITP) grants .....	-355
Miscellaneous grants (SACF Booth/UM PTAC) .....	-320
Reduction in regional office grants .....	-83
Reduction to Maryland Agricultural Education and Rural Development Assistance Fund grants – reimbursable funds.....	-86
Funding for management studies deleted.....	-112

**Administration of Overhead**

Increased communications costs .....	267
Reduced funding for travel-related expenditures .....	-174
Reduced funding for utilities to the fiscal 2002 actual expenditure level.....	-83
Eliminate one-time costs for new vehicle purchases in fiscal 2003.....	-58
Reduced funding for various management studies throughout the department – the overall funding for management studies is \$128,000, which is approximately the same amount expended for these activities in fiscal 2002 .....	-110

<b>Other</b>	<b>-76</b>
<b>Total</b>	<b>\$4,768</b>

SACF = Strategic Assistance Consulting Fund  
 UM PTAC = University of Maryland Procurement Technical Assistance Center

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

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expenditure categories. Other significant changes to the department's budget for administration and overhead include a \$267,000 increase in communication costs, a \$174,000 reduction in overall travel expenditures, reduced utilities charges of \$83,000, the elimination of one-time new car purchase in fiscal 2003, and a \$110,000 reduction in funds for management studies. Changes in operations are reflected programmatically in the sections that follow.

### **Division of Business Development**

The Division of Business Development provides site selection, market and economic data and promotes international trade opportunities to State businesses with the goal of influencing businesses in targeted industry sectors to invest in the State. The fiscal 2004 allowance for the division is \$8.8 million, which represents a \$601,000, or 6.4% reduction from the adjusted fiscal 2003 working appropriation. Despite the abolishment of one position, personnel expenditures for regular employees increase by \$243,000 in the budget due to increased health care costs. The most significant reductions include a \$374,000 reduction in the division's advertising and marketing budget – the budget still provides approximately \$2.4 million for contractual marketing and promotional services – a \$23,000 reduction to various business development grants, and the elimination of a \$95,000 grant provided to support the Biotechnology Industry Organization Conference.

### **Division of Financing Programs**

The Division of Financing Programs, which manages the department's PAYGO and GO bond funded financing programs, directs program resources to targeted market segments of commercial and industrial businesses by providing financing incentives or credit enhancements. The division's fiscal 2004 allowance of \$5.4 million is comprised entirely of special funds generated by the activities of the financing programs. The allowance is approximately \$3.0 million less than the adjusted fiscal 2003 working appropriation. This reduction in funding is attributable to the elimination of the operating grant to TEDCO funded at \$2.75 million in fiscal 2003, and the elimination of a \$200,000 grant provided to support the MTTF program. The Governor's budget provides TEDCO with an operating grant of \$2.0 million funded through BPW. In addition, TEDCO is now administering the MTTF program and intends to direct a portion of its capital PAYGO budget to fund program investments during fiscal 2004. The program loses two regular positions through abolishment. Personnel costs, however, decrease by only \$66,000 in the budget due to changes in the employee turnover rate applied to the division and increased health care costs in general.

### **Division of Tourism, Film, and the Arts**

The fiscal 2004 allowance for the Division of Tourism, Film, and the Arts is \$29.8 million in total funds. This represents a \$950,000, or 3.3% reduction from the adjusted fiscal 2003 working appropriation. Chapters 612 and 613 of 2001 require the Governor to submit a general fund allowance for the Office of Tourism Development of not less than the amount the Governor proposed for fiscal 2001. The allowance provides the minimum \$6.5 million in general funds as required by statute, and an additional \$50,000 in reimbursable funds from the Maryland Aviation Administration.

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Chapters 612 and 613 of 2001 also changed the statutory annual funding formula for the MTDB from \$6.0 to \$8.5 million beginning with fiscal 2003. The funds are credited to the Maryland Tourism Development Board Fund – a special nonlapsing fund used by the board to plan, advertise, and develop tourism and travel industries in the State. Due to the poor fiscal condition of the State, the General Assembly rebased the funding formula through the 2002 BRFA, Chapter 440, Acts of 2002. A new schedule was implemented lowering the statutory funding requirements for the fund through fiscal 2006. **Exhibit 4** shows the changes made by the legislation.

**Exhibit 4**

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**Funding for MD Tourism Development Board**  
**(\$ in Millions)**

<u>Fiscal Year</u>	<u>Chapters 12 &amp; 13 (2001)</u>	<u>Chapter 440 (2002)</u>
2003	\$8.5	\$6.0
2004	8.5	6.0
2005	8.5	7.0
2006	8.5	7.0
2007 and thereafter	8.5	8.5

Source: Chapters 12 and 13, Acts of 2001; Budget Reconciliation and Financing Act of 2002, Chapter 440, Acts of 2002

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The fiscal 2004 allowance provides that statutory \$6.0 million in general funds for the MTDB. The allowance also provides \$400,000 in special funds to the MTDB representing the estimated fiscal 2004 revenues derived from MTDB activities and interest earnings on the fund. As was discussed under the section of this analysis covering the fiscal 2003 cost containment actions, the appropriation for fiscal 2003 was not reduced to \$6.0 million as statutorily required. Rather, DBM booked the \$2.5 million reduction as a fiscal 2003 fund transfer which is now reflected in the cost containment measures already taken against the fiscal 2003 budget.

The Maryland State Arts Council (MSAC) receives \$15,237,245 in the Governor’s budget. This is \$2,446,301, or 19.3% greater than the funding provided in the fiscal 2003 adjusted working appropriation. The MSAC's budget is composed primarily of grants to arts organizations, community arts development, artists in education, and individual artists. The allowance for MSAC grants is \$13,871,521 consisting of \$13,401,799 of general funds, \$201,507 of special funds, and \$268,215 of federal funds. Under Section 7-325 of the State Finance and Procurement Article, the Governor is required to submit a budget for the arts council where the general funds increase by not less than the percentage by which the revised general fund revenues for the current fiscal year exceed the revised estimate of total general fund revenues for the upcoming fiscal year as submitted by the Board of Revenue Estimates (BRE). Official BRE

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revenue estimates show general funds increasing 5.69% from the December 2001 to the December 2002 estimate for fiscal 2003. The Governor's general fund allowance to the MSC of \$14,545,242 is consistent with the statutory funding requirement and represents a 5.69% increase over the council's fiscal 2003 general fund appropriation. While the Governor's budget allowance meets the statutory requirement, the budget as submitted by the Governor also includes language that would reduce the general fund appropriation by \$2,265,100 contingent upon the enactment of legislation reducing the mandated amount of funds. This would presumably be accomplished through budget reconciliation legislation. It is unclear at this time, if the administration is intending to submit a proposal to rebase the council's statutory funding formula or just provide for a one-time reduction. During the 2002 session, DLS recommended a one-time rebasing of the formula that would use the fiscal 2003 appropriation as the benchmark rather than the allowance.

### **Division of Regional Development**

The Division of Regional Development consists of five major programs designed to promote the growth and competitiveness of new and existing Maryland Businesses, ensure continued federal investment, support strategic planning, and improve the business climate:

- In-state Business Services;
- Military Affairs;
- Community Development;
- World Class Consortia; and
- Grants Administration.

The division's fiscal 2004 allowance is \$12.7 million which is a \$1.0 million reduction, or 7.6% below the adjusted fiscal 2003 working appropriation. Virtually the entire reduction is attributable to reductions in grant funds. The combined reduction to the Maryland Industrial Training Program (MITP) and the Partnership for Workforce Quality (PWQ) programs is approximately \$355,000 below the fiscal 2003 adjusted working appropriation. This reduction is on top of reductions made to these programs by the legislature for the fiscal 2003 budget. Several small business development grants have also been either eliminated or reduced resulting in reductions totaling \$320,000. The allowance for regional office grants is reduced by approximately \$83,000, and the budget does not include reimbursable funds for the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF) grants resulting in a reduction of \$86,000. The department expects to process a budget amendment to transfer funds from BPW to make MAERDAF grants during fiscal 2004. Finally, the budget eliminates funds for management studies amounting to a \$112,000 reduction.

### **Impact of Cost Containment**

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The fiscal 2004 allowance reflects a \$2,265,100 reduction to the general fund appropriation for the Maryland State Arts Council contingent upon the enactment of a provision in the 2003 BRFA.

The fiscal 2004 allowance reflects the elimination of the appropriation for matching employee deferred compensation contributions up to \$600 contingent upon the enactment of a provision in the 2003 BRFA.

## Issues

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### 1. Summary of Major Grants – Reductions to Discretionary Grants Recommended

A large portion of the department's budget includes grants to support workforce training, small business development, regional and community economic and community development organizations, arts organizations, and other business marketing and promotional efforts. **Exhibit 5** provides a summary total of the grant funds provided in the allowance for each departmental division. **Appendix 5** provides a detailed breakdown of the individual grants made in fiscal 2002 and 2003 and proposed for fiscal 2004. The fiscal 2004 allowance provides over \$24.3 million to support the department's grant activities, which represents a reduction of \$2.4 million from the adjusted fiscal 2003 appropriation.

#### Exhibit 5

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#### Summary of Major Grants Fiscal 2002 through 2004 Allowance

	<u>Actual Fiscal 2002</u>	<u>Adjusted Fiscal 2003</u>	<u>Allowance Fiscal 2004</u>
Office of the Secretary	\$100,000	\$0	\$0
Division of Business Development	465,750	410,000	336,800
Division of Financing Programs	2,480,000	2,950,000	0
Division of Tourism, Film, and the Arts	2,757,976	1,901,978	1,646,978
Maryland State Arts Council	12,458,379	11,608,205	13,871,521
Division of Regional Development	13,367,777	9,827,039	8,457,668
<b>Total</b>	<b>\$31,623,882</b>	<b>\$26,697,222</b>	<b>\$24,312,967</b>

Source: Department of Business and Economic Development

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In many instances, the grants provided are not statutorily required but rather are discretionary. The structural imbalance between State general fund revenues and expenditures makes providing grants a luxury that should be reviewed more closely. A summary of the grant activity for the department's divisions is provided below:

- **Division of Business Development:** Grants within the Division of Business Development are made to organizations which provide collaborative and inter-jurisdictional marketing and training opportunities. The fiscal 2004 allowance provides \$336,800 for grants to the Maryland Israel Development Corp., World Trade Center Institute, and to support grants made to small and mid-sized exporters to conduct targeted export strategies. **DLS recommends that the general funds provided for these grants be**

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reduced to \$230,000 for the fiscal 2004 budget. This constitutes roughly half the amount expended in fiscal 2002 and will allow the department to continue to provide these grants but at a reduced impact on the State budget.

- ***Division of Financing Programs:*** For the past several years, the Division of Financing Programs has supported the operations of TEDCO by providing grant funds from the department's Enterprise Fund. The agreement to fund TEDCO through Enterprise Fund proceeds expired with the fiscal 2003 budget. Consequently, funding for TEDCO is now provided through BPW and no longer appears in the department's budget. Also not appearing in the department's fiscal 2004 allowance is the annual grant to the Maryland Industrial Partnership Program – now known as MTTF. Funding support for MTTF is provided through TEDCO's operating budget grant. As a result of these shifts in funding source, the Division of Finance is not budgeted to fund any grants during fiscal 2004.
- ***Division of Tourism, Film, and the Arts:*** Grant activity in the Division of Tourism, Film, and the Arts can be divided into two categories: tourism grants and Arts Council grants.

Most of the funding for tourism grants goes to support county tourism cooperative grants administered by MTDB. The allowance provides \$1.0 million for these grants, which is the same amount provided for fiscal 2003 after the impact of cost containment reduced the MTDB appropriation from \$8.5 to \$6.0 million. Also funded through MTDB funds are local county tourism program grants. The allowance provides \$147,000 for these grants, which is the same amount provided over the last several fiscal years. The allowance also continues to provide the Baltimore City Downtown Partnership with \$100,000 to defray the cost of funding four public safety guides for the cities downtown district. **DLS recommends deleting these funds from the budget. The State, through public safety grants budgeted in the Maryland State Police, already provides the city with a significant amount of funds in support of public safety in Baltimore City.** The allowance also provides \$300,000 to support the Office of Tourism Development's one-third share of the expenses associated with the marketing efforts of the Capital Region USA, Inc, (CURSA). CURSA is an international marketing coalition consisting of Maryland, Virginia, and the District of Columbia (DC). The organization conducts marketing activities in Europe to promote the regions travel opportunities. **Given the fiscal condition facing both Virginia and DC, DLS recommends that the department provide the budget committees with some assurance that the State of Virginia and DC are providing its portion of the shared cost associated with CURSA's activities.** Grants to the Baltimore Area Convention and Visitors Association and the Ward Waterfowl Museum expired with the fiscal 2003 budget.

The allowance for grants administered by the Maryland State Arts Council is statutorily prescribed as discussed under the Governor's Proposed Allowance section of this analysis. The allowance provides \$13.9 million for arts grants; however, the Governor's budget includes language that will reduce the total amount of general funds provided to the council by \$2,265,100 contingent upon legislation. Since most of the general funds provided to the council support grant activities, the proposed reduction will primarily impact the amount of grant funds available, although some of the reduction can be spread among other operating functions of the councils budget. **DLS recommends reducing the amount of general funds provided for Arts Council grants by an additional 25%, or**

**\$2,901,605 for fiscal 2004. Depending upon how the Governor's proposed reduction is allocated by the department, the additional reduction recommended would still provide approximately \$8.2 million of general funds to support Arts Council grants. In addition, the council makes use of \$200,000 in special funds and another \$268,000 in federal funds to support grant activities. DLS also recommends that the statutory formula establishing the councils annual general fund allowance be rebased so that it is based on the current years appropriation rather than the current years Governor's allowance.**

- ***Division of Regional Development:*** Within the Division of Regional Development, grants are provided for a number of local planning organizations to promote economic development within the various regions of the State. The allowance provides \$8.5 million to the division to support its grant activities. Most of the grant funds are distributed to support the MITP and PWQ workforce training programs. The allowance provides \$3,680,000 for MITP, which is \$1.9 million less than was spent by the program during fiscal 2002. The allowance for PWQ is \$2,691,250, which is \$1.2 million less than was spent by the program during fiscal 2002. Other than supporting workforce training needs, the division's grant activities also support regional and local planning organizations and business assistance programs. Funding for these activities is approximately \$2.0 million in the fiscal 2004 allowance. **DLS recommends reducing the budget for these grants by \$1.0 million. This reduction would leave approximately \$1.0 million to support local planning organization and business assistance program grants, and since no single recipient is identified for reduction, the department will have the discretion to fund some or all of the grants with available resources.**

Not included in the allowance are reimbursable funds to support grants from the Maryland Agriculture Education and Rural Development Assistance Fund. The department received \$488,000 from the fund and directly distributed \$177,000 in grants during fiscal 2002, and expects to once again distribute grants during fiscal 2004.

## **2. Consolidation with Department of Housing and Community Development**

The Department of Housing and Community Development (DHCD) and DBED perform a variety of functions and operate many programs that in many respect share similar goals or provide similar services. The consolidation of DHCD into DBED might prove beneficial to the delivery of services, create synergies among like programs, and eliminate unnecessary and duplicative administrative costs.

As recently as 1988, the functions of DHCD and DBED were consolidated under the former Department of Economic and Employment Development (DEED). Under former Governor William Donald Schaefer's administration, DEED was subdivided into three distinct cabinet level departments – DHCD, DBED, and the Department of Labor, License, and Regulation (DLLR). Since the establishment of DHCD and DBED as independent departmental entities, each has grown and added a variety of programs that assist needs of business and communities.

Both DHCD and DBED administer grant and loan program that are designed to assist and expand business opportunities, as well as expand the vitality of communities across the State. For instance,

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DHCD's Division of Neighborhood Revitalization administers grants and loans as well as provides loan insurance to small business through its Neighborhood Business Development Program, Capital Access Program, and Community Legacy Program. DBED also administers a variety of grant and loan programs designed to assist the needs of businesses and strengthen communities. In addition, while DHCD is the administering agency for federal Community Development Block Grants, both DHCD and DBED share the resources to provide funding to a variety of projects that meet the needs of business, communities, and low-income families. Also, DBED is the administering agency for State allocation of private-activity bonds, and much of these resources are directed to support DHCD affordable housing initiatives. A great deal of loan administration, credit underwriting, and asset management accompany each of DHCD's and DBED's programs. Finally, many of the programs and services performed by DHCD's Division of Historical and Cultural Programs lend themselves to functions performed by DBED's Office of Tourism Development.

### **Potential Cost Savings**

A consolidation of DHCD into DBED could potentially reduce State expenditures through certain administrative efficiency's and economies of scale. Most notably it would eliminate a cabinet-level department. The following is a summary of the administrative efficiencies that could be realized:

- ***Eliminate Cabinet Secretary:*** Consolidation would eliminate the need for cabinet secretary functions for one department. While some positions with expertise in administering housing and community development programs would probably need to be retained, this analysis assumes that DHCD's Office of the Secretary, including the Office of Management Services, is absorbed by DBED thus eliminating the need for cabinet-level secretary and deputy secretary positions, as well as eliminating most of the higher level office director, executive assistance, and administrative officer positions.
- ***Merge Administrative Functions:*** Consolidation allows for the merger of administrative functions in the areas of human resources management, general services, and budget and finance. DHCD's Division of Finance and Administration could be merged into DBED's administrative support offices.
- ***Merge Information Technology Functions:*** Consolidation allows for the merger of information technology functions such as system development, data processing, and computer support services. DHCD's Division of Information Technology could be merged into DBED creating certain efficiency's and reductions in personnel needs.
- ***Grant and Loan Programs:*** Each department administers several grant and loan programs. It is possible that the administration of these programs could be merged to create some cost savings. In as much as each program is designed and administered to serve a distinct purpose, it is unlikely that a wholesale merger could take place. Rather, if we assume that each program survives the merger it is more likely that some administrative functions could be merged and eliminated.
- ***Miscellaneous Savings:*** Consolidation might also provide some saving in rent costs. DGS owns DHCD's headquarters building located at 100 Commerce Drive in Crownsville. Consolidation

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might allow for some of DBED's functions, possibly the tourism related functions, to move to the current DHCD location. This would reduce DBED's rent costs at Redwood Towers.

**DLS recommends budget language directing DHCD and DBED, with DBM as coordinating agency, to examine the feasibility of eliminating DHCD and transferring its functions to DBED. A report should be submitted by November 15, 2003, addressing the following issues: (1) DHCD program areas that are duplicative of DBED programs and that serve similar functions; (2) potential strategies for transferring DHCD programs to DBED; (3) the advantages, disadvantages, and estimated cost savings associated with each strategy; and (4) draft implementing legislation.**

### **3. Report Suggests the State Increase Funding for Tourism**

Chapter 613, Acts of 2001 required MTDB to submit a report to the Senate Finance, and Budget and Taxation committees, and House Economic Matter Committee on the following:

- the MTDB's activities relating to planning, advertising, promotion, assistance, and development of the tourism industry in the State during fiscal 2001 and 2002;
- the MTDB's plan of activities anticipated during fiscal 2003 through 2007; and
- recommendations on the funding level for fiscal 2004 and subsequent years.

On January 7, 2003, the department submitted the required report to the committees. The report provides the following information:

- Maryland's travel office budget and tourism related revenue were the second lowest in the region as of fiscal 2001. (The region consists of Maryland, New York, Pennsylvania, Virginia, and West Virginia).
- The Office of Tourism budget has increased from \$5.1 million in fiscal 1994 to \$11.2 million in fiscal 2000. During the same time period, revenue increased from \$4.5 to \$8.2 billion. The State's competitors also increased their tourism budgets so Maryland while making improvements in funding levels is only keeping pace and still the second lowest.
- Once the Office of Tourism's budget was increased by \$1.0 million annually beginning in fiscal 1996 and through fiscal 2001, State and local tax revenue generated from hotel/motel, and admission and amusement taxes grew at a rate of approximately \$46 million annually.
- Since 1996, Maryland's visitor rate has grown while regional competitors have seen a decline in visitor volume.
- The current funding stream will not allow Maryland to keep pace with regional competitors which

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could negatively impact the State's economic condition. The report recommends an annual expansion of the tourism budget in the amount of \$2.5 million. This would increase the budget from approximately \$15 million in fiscal 2004 to \$21 million in fiscal 2007.

Given the current fiscal condition of the State, and decisions made by the legislature to make only modest increases to tourism funding over the next several years, the Division of Tourism may have to consider proposals for creating a dedicated source of revenues to support tourism activities. Several funding mechanisms for supporting the State's tourism industry were provided in a December 2001 report to the budget committees. The report identified five primary alternative tourism funding mechanisms used by other states.

***Hotel/Motel Tax:*** Ten states levy a hotel/motel tax that is dedicated in whole or part to tourism programs. The advantages of such a tax is that it is applied directly to the user of a service. Furthermore, because the majority of the tax would be levied on non-state residents, a significant portion of the revenue generated would be derived from outside the State. Disadvantages of a hotel/ motel tax are that it is a new tax that would be collected by just one segment of the tourism industry. In addition, such a tax would increase the cost of lodging accommodations.

***Broad-based Tourism Tax:*** Four states use a broad-based tourism tax. Typically, such a tax is applied to certain tourism industry sectors over and above any normal state sales tax. Some of the advantages include that such a tax is levied on direct users of a specific service, a majority of the revenues would be derived from outside the State, and the tax is applied across the industry sector and does not add significantly to the cost of any one tourism service. The primary drawback to a broad-based tourism tax is that is difficult to fairly levy without discrete industry tax codes. Currently, the State Comptroller's Office does not utilize standard industrial classification codes. Without standardization of these codes it is difficult to attribute tax revenue to any specific source of activity.

***Lottery Revenues:*** Three states dedicate a portion of lottery revenues to tourism programs. However, because such an approach merely takes funds away from the State general fund, this approach was not studied by the writers of the report.

***Rental Car Surcharge:*** Two states levy a surcharge on rental cars. Advantages include the sizable amount of revenue that could be collected, and that the majority of the revenues would be derived from outside the State. The disadvantages are that the rental car business is already subject to a variety of other taxes which have driven up the cost of renting cars.

***Dedicated General Fund Supplement:*** Two states dedicate a portion of annual revenue growth to tourism programs. This approach would dedicate a percentage or portion of annual general fund growth to tourism programs. Advantages include that it does not require the adoption of a new tax, and it would not subject any segment of the tourism industry to a specific tax. Disadvantages include that it does not enhance revenues but rather reduces the availability of general funds which could be used for other purposes.

**DLS recommends that the department brief the committees on the findings of its December 2002 Legislative Report on Funding and comment on the pros and cons of the alternative funding mechanisms identified in the above.**

#### **4. MCAFF Program Should Be Discontinued**

Due to the excessive cost of administering the Maryland Competitive Advantage Financing Fund (MCAFF), and the relative small number of loans that are provided by the program, DLS recommends that the MCAFF program no longer be funded and that consideration be given to eliminating the program through budget reconciliation legislation that is anticipated to be before the General Assembly during the 2003 session. The recommendation to eliminate the program and delete general fund PAYGO support for fiscal 2004 is provided in the DLS capital PAYGO analysis of DBED's financing programs. In this operating analysis, the recommendation provides for the elimination of all direct costs supporting the MCAFF program's administration.

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, MSBDFA is charged with meeting a number of business finance needs, including providing financing to businesses unable to obtain financing from traditional lenders. The Neighborhood Business Development Program (NBDP), administered by DHCD, 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 out-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 admitted 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 default are likely to occur in these loans at a later date. DLS advises that the department should consider more efficient mechanisms for

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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***

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1. Add the following language:

Provided that the Maryland Department of Housing and Community Development (DHCD) and the Department of Business and Economic Development (DBED), in consultation with and coordinated by the Department of Budget and Management, shall develop a report by November 15, 2003, providing recommendations for transferring functions of DHCD to DBED. The report shall address the following issues: (1) DHCD program areas that are duplicative or sufficiently similar to DBED programs whereby consolidation would provide beneficial results; (2) potential strategies for transferring DHCD programs to DBED; (3) the advantages, disadvantages, and estimated costs savings associated with each strategy; and (4) draft implementing legislation.

**Explanation:** Many of DHCD's and DBED's programs either overlap or are sufficiently similar to warrant consideration of consolidation. This language requires the two departments, in consultation with and coordinated by the Department of Budget and Management, to submit a report examining the feasibility of abolishing DHCD and transferring its functions to DBED.

<b>Information Request</b>	<b>Authors</b>	<b>Due Date</b>
Report in re-allocating DHCD functions to DBED	DHCD DBED DBM	November 15, 2003

	<b><u>Amount Reduction</u></b>	<b><u>Position Reduction</u></b>
2. Delete funding for staff development activities. These are unnecessary expenditures in light of the State's fiscal condition. This reduction is budgeted in the Division of Business Development but should be allocated by the department among the various department units.	\$ 48,381 GF \$ 9,502 SF	
3. Reduce general funds for grants in the Division of Business Development. The budget supports grants to the Maryland Israel Development Corp., World Trade Center Institute, and Small Business Foreign Trade grants for collaborative and inter-jurisdictional marketing and training efforts. The recommended reduction would provide \$260,000 to support these activities.	106,800 GF	

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4.	Delete all funds and positions supporting the Maryland Competitive Advantage Financing Fund (MCAFF). This program should be eliminated, and the current loan portfolio consolidated under the Maryland Economic Development Assistance Fund. MCAFF duplicates other State programs designed to assist small businesses, and provides assistance to too few companies to justify the exorbitant cost of administering the program.	254,147	SF	3.0
5.	Delete funding for public safety guides in Baltimore City. Public safety in Baltimore City is the responsibility of the Baltimore City Police Department.	100,000	GF	
6.	Reduce general fund grant expenditures in the Maryland State Arts Council (MSAC). Coupled with the proposed reduction of \$2,265,100 included in budget language submitted in the Governor’s budget, the MSAC would have \$8,235,095 in general funds and another \$201,507 in special funds from the State to support the council’s grant activities.	2,901,605	GF	
7.	Reduce general funds for Division of Regional Development grants. Excluding funds budgeted for Maryland Industrial Training Program and Partnership for Workforce Quality grants, the reduction represents roughly half the budgeted general funds for the division’s discretionary grant activities. Recommended reductions to individual grants is not made to allow the department to choose what grants to fund and in what amounts.	1,000,000	GF	
	<b>Total Reductions</b>	<b>\$ 4,420,435</b>		<b>3.0</b>
	<b>Total General Fund Reductions</b>	<b>\$ 4,156,786</b>		
	<b>Total Special Fund Reductions</b>	<b>\$ 263,649</b>		

## *Current and Prior Year Budgets*

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2002</b>					
Legislative Appropriation	\$62,776	\$11,225	\$511	\$382	\$74,894
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,149	281	771	2,201
Reversions and Cancellations	-827	-381	-172	-317	(1,697)
<b>Actual Expenditures</b>	<b>\$61,949</b>	<b>\$11,993</b>	<b>\$ 620</b>	<b>\$ 836</b>	<b>\$75,398</b>
<b>Fiscal 2003</b>					
Legislative Appropriation	\$58,248	\$11,483	\$528	\$484	\$70,743
Budget Amendments	-3,202	183	0	0	(3,019)
<b>Working Appropriation</b>	<b>\$55,046</b>	<b>\$11,666</b>	<b>\$ 528</b>	<b>\$ 484</b>	<b>\$67,725</b>

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

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### **Fiscal 2002**

DBED finished fiscal 2002 approximately \$503,000 above its legislative appropriation. The impact of fiscal 2002 cost containment measures and significant budget amendments are provided below.

**General Funds:** The department's total general fund expenditure for fiscal 2002 was reduced through cost containment measures by approximately \$827,000. Other amendments and reversions net to zero.

**Special Funds:** The actual fiscal 2002 special fund expenditures was \$768,000 greater than the legislative appropriation. Significant adjustments include an increase of \$180,000 representing unappropriated Artist-in-Education special funds. The department cancelled \$142,000 of these funds, but expects to process a budget amendment during fiscal 2003 to expend the cancelled funds. A budget amendment in the amount of \$568,787 increased the special fund appropriation to the MTDB fund. The department received \$100,000 from the Information Technology Investment Fund to support the cost of upgrades to the Business License Information System. The department also increased its special fund appropriation in the amount of \$300,000 to support the tornado relief efforts in Charles County.

**Federal Funds:** The amendments impacted the department's federal fund expenditure for fiscal 2002. First, the Maryland State Arts Council received an additional \$130,000 from the National Endowment of the Arts to support art education programs. The council also cancelled \$172,000 of federal grant funds but expects to process a budget amendment so that it can expend these funds during fiscal 2003. The Division of Regional Development received \$150,000 from the U.S. Department of Commerce to assist with the operating expenses of the newly created Mid-Shore Regional Planning Council and the Tri-Count Council Lower Shore.

**Reimbursable Funds:** The reimbursable fund expenditure totaled approximately \$836,000. The original appropriation of \$382,000 was increased by \$771,000 through several budget amendments and then reduced by \$317,000 to reflect cancellations. Among the significant amendments is a \$488,000 amendment from BPW for the Maryland Agricultural Education and Rural Development Assistance Fund. The department administered \$177,000 of the funds and the budget reflects the cancellation of \$311,000, which represents the portion of the funds administered by the Department of Natural Resources and the Maryland Department of Agriculture. The Office of Tourism Development received \$183,000 from the Department of Transportation to assist with the cost of renovating welcome centers along interstate I-70 and US 301 Crain Memorial Highway. The Maryland State Art Council received \$50,000 from DHCD to assist with the Maryland Traditions folk art and folk life initiative.

### **Fiscal 2003**

Cost containment measures have reduced the department's general fund appropriation by approximately \$3.2 million including the tourism grant reduction. The special fund appropriation has been increased by \$188,000 through two amendments. First, the budget for the Division of Business Development was increased by \$95,000 from unappropriated special funds from MEDAFF to support a grant to the Biotechnology Industry Organization Conference. The department also increased its special fund appropriation to support the special fund share or reductions made to information technology required by the fiscal 2003 budget bill. Both the general and special fund appropriations reflect the

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planned reversion of the transit subsidy for State employees.

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Appendix 2

Object/Fund Difference Report  
Department of Business and Economic Development

	<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>
<b>Positions</b>					
01 Regular	324.00	319.00	310.00	-9.00	-2.8%
02 Contractual	48.70	43.10	41.00	-2.10	-4.9%
<b>Total Positions</b>	<b>372.70</b>	<b>362.10</b>	<b>351.00</b>	<b>-11.10</b>	<b>-3.1%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 21,065,931	\$ 20,568,887	\$ 21,237,807	\$ 668,920	3.3%
02 Technical & Spec Fees	1,865,445	1,613,763	1,549,343	-64,420	-4.0%
03 Communication	1,073,212	831,829	1,098,703	266,874	32.1%
04 Travel	841,483	1,014,438	840,039	-174,399	-17.2%
06 Fuel & Utilities	189,448	268,025	185,423	-82,602	-30.8%
07 Motor Vehicles	311,951	380,982	312,808	-68,174	-17.9%
08 Contractual Services	15,473,555	16,625,054	13,525,012	-3,100,042	-18.6%
09 Supplies & Materials	482,020	609,500	480,986	-128,514	-21.1%
10 Equip - Replacement	115,962	15,976	25,397	9,421	59.0%
11 Equip - Additional	99,248	30,000	14,200	-15,800	-52.7%
12 Grants, Subsidies, Contr	32,281,048	27,379,691	24,284,542	-3,095,149	-11.3%
13 Fixed Charges	1,598,734	1,592,635	1,797,987	205,352	12.9%
<b>Total Objects</b>	<b>\$ 75,398,037</b>	<b>\$ 70,930,780</b>	<b>\$ 65,352,247</b>	<b>-\$ 5,578,533</b>	<b>-7.9%</b>
<b>Funds</b>					
01 General Fund	\$ 61,949,013	\$ 58,247,710	\$ 55,709,427	-\$ 2,538,283	-4.4%
03 Special Fund	11,992,837	11,670,966	8,685,246	-2,985,720	-25.6%
05 Federal Fund	620,047	527,891	559,574	31,683	6.0%
09 Reimbursable Fund	836,140	484,213	398,000	-86,213	-17.8%
<b>Total Funds</b>	<b>\$ 75,398,037</b>	<b>\$ 70,930,780</b>	<b>\$ 65,352,247</b>	<b>-\$ 5,578,533</b>	<b>-7.9%</b>

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

T00 - Department of Business and Economic Development

Fiscal Summary  
Department of Business and Economic Development

<u>Unit/Program</u>	FY 02		FY 03		FY 03		FY 02 - 03		FY 04		FY 03 - 04	
	<u>Actual</u>	<u>Legislative Appropriation</u>	<u>Working Appropriation</u>	<u>Appropriation</u>	<u>Appropriation</u>	<u>% Change</u>	<u>Allowance</u>	<u>% Change</u>	<u>Allowance</u>	<u>% Change</u>		
01 Secretariat Services	\$ 4,160,041	\$ 3,761,294	\$ 3,761,294	\$ 3,761,294		-9.6%	\$ 3,663,732	-2.6%	\$ 3,663,732	-2.6%		
02 Maryland Economic Development Commission	25,000	19,960	19,960	19,960		-20.2%	3,172	-84.1%	3,172	-84.1%		
03 Office of the Attorney General	1,368,528	1,452,194	1,452,194	1,452,194		6.1%	1,487,661	2.4%	1,487,661	2.4%		
01 Office of Administration	3,533,877	3,464,013	3,464,013	3,464,013		-2.0%	3,449,490	-0.4%	3,449,490	-0.4%		
01 Division of Business Development	9,980,774	9,024,043	9,422,183	9,422,183		-5.6%	8,821,440	-6.4%	8,821,440	-6.4%		
01 Assistant Secretary for Financing Programs	1,544,872	1,401,744	1,494,744	1,494,744		-3.2%	1,329,574	-11.1%	1,329,574	-11.1%		
03 Maryland Small Business Development Financing Auth	1,171,778	1,237,620	1,237,620	1,237,620		5.6%	1,253,884	1.3%	1,253,884	1.3%		
05 Consolidated Operations	1,863,844	1,901,619	1,901,619	1,901,619		2.0%	1,936,135	1.8%	1,936,135	1.8%		
08 Maryland Enterprise Investment Fund	3,123,458	3,741,203	3,741,203	3,741,203		19.8%	863,141	-76.9%	863,141	-76.9%		
01 Assistant Secretary and Administration	1,725,439	1,156,142	1,156,142	1,156,142		-33.0%	633,668	-45.2%	633,668	-45.2%		
02 Office of Tourism Development	7,194,414	6,716,300	6,640,515	6,640,515		-7.7%	6,530,050	-1.7%	6,530,050	-1.7%		
03 Maryland Tourism Board	6,848,387	8,855,346	8,855,346	8,855,346		29.3%	6,400,000	-27.7%	6,400,000	-27.7%		
04 Maryland Film Office	1,268,575	1,249,832	1,220,196	1,220,196		-3.8%	1,003,141	-17.8%	1,003,141	-17.8%		
05 Maryland State Arts Council	14,236,567	10,317,093	12,770,944	12,770,944		-10.3%	15,237,245	19.3%	15,237,245	19.3%		
01 Division of Regional Development	13,502,483	10,944,377	10,792,807	10,792,807		-20.1%	10,048,664	-6.9%	10,048,664	-6.9%		
03 Partnership for Workforce Quality	3,850,000	3,000,000	3,000,000	3,000,000		-22.1%	2,691,250	-10.3%	2,691,250	-10.3%		
<b>Total Expenditures</b>	<b>\$ 75,398,037</b>	<b>\$ 68,242,780</b>	<b>\$ 70,930,780</b>	<b>\$ 70,930,780</b>		<b>-5.9%</b>	<b>\$ 65,352,247</b>	<b>-7.9%</b>	<b>\$ 65,352,247</b>	<b>-7.9%</b>		
General Fund	\$ 61,949,013	\$ 55,747,710	\$ 58,247,710	\$ 58,247,710		-6.0%	\$ 55,709,427	-4.4%	\$ 55,709,427	-4.4%		
Special Fund	11,992,837	11,482,966	11,670,966	11,670,966		-2.7%	8,685,246	-25.6%	8,685,246	-25.6%		
Federal Fund	620,047	527,891	527,891	527,891		-14.9%	559,574	6.0%	559,574	6.0%		
<b>Total Appropriations</b>	<b>\$ 74,561,897</b>	<b>\$ 67,758,567</b>	<b>\$ 70,446,567</b>	<b>\$ 70,446,567</b>		<b>-5.5%</b>	<b>\$ 64,954,247</b>	<b>-7.8%</b>	<b>\$ 64,954,247</b>	<b>-7.8%</b>		
Reimbursable Fund	\$ 836,140	\$ 484,213	\$ 484,213	\$ 484,213		-42.1%	\$ 398,000	-17.8%	\$ 398,000	-17.8%		
<b>Total Funds</b>	<b>\$ 75,398,037</b>	<b>\$ 68,242,780</b>	<b>\$ 70,930,780</b>	<b>\$ 70,930,780</b>		<b>-5.9%</b>	<b>\$ 65,352,247</b>	<b>-7.9%</b>	<b>\$ 65,352,247</b>	<b>-7.9%</b>		

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

**Certification Results for Selected Department of Business and Economic Development Fiscal 2001 Performance Measures**

<u>Performance Measure</u>	<u>Reported Results</u>	<u>Level of Certification</u>	<u>Comments</u>
Capital Investment (in millions) - State	\$113.7	Factors Prevented Certification	The department did not disclose that the reported results represented projects rather than actual capital investments.
Capital Investment (in millions) – Private Sector	\$691.2	Factors Prevented Certification	
Jobs in New/Expanded Firms – New	21,393	Inaccurate	Comprehensive quality control measures to ensure accuracy not in place.
Jobs in New/Expanded Firms – Retained	33,670	Inaccurate	
<b>Division of Business Development</b>			
Location Decisions – Businesses New to State	22	Factors Prevented Certification	The department did not retain documentation supporting some of the location decisions. For jobs committed, supervisory controls were inadequate to ensure the data collected were complete, accurate and consistent with the measures definition. In many instances the number of jobs reported were incorrectly included or excluded for the results, improperly classified and/or did not meet the criteria for classification.
Jobs Committed – Businesses New to State	4,704	Inaccurate	
Location Decisions – Businesses Retained in State	21	Factors Prevented Certification	
Jobs Committed – Businesses Retained in State	5,546	Inaccurate	
<b>Division of Financing Programs</b>			
New Jobs Projected in Respective Fiscal Year Approvals	12,814	Factors Prevented Certification	Quality control procedures were not sufficient to ensure the accuracy of the performance measure results. Various summary documentation provided to support the reported measures contained job totals that differed from the reported results.
Retained Jobs Projected in Respective Fiscal Year Approvals	9,228	Factors Prevented Certification	
<b>Office of Tourism Development</b>			
Total Travel Expenditure (Billions)	\$8.0	Factors Prevented Certification	The department did not disclose that the reported results represented projections. The department did not generate or retain documentation to support reported results.
State & Local Tax Revenue (Millions)	\$683.3	Factors Prevented Certification	
<b>Maryland Film Office</b>			
Direct Expenditure (Millions)	\$15.7	Factors Prevented Certification	The department did not disclose that the reported results represented estimates rather than actual performance. The office could not provide supporting documentation from film companies that it relied upon to calculate the measures.
State & Local Taxes (Millions)	\$0.80	Factors Prevented Certification	
<b>Division of Regional Development</b>			
New Jobs Created	6,228	Factors Prevented Certification	The department did not disclose that the reported results represented projections rather than actual performance.
Retained Jobs	21,224	Factors Prevented Certification	

**Department of Business and Economic Development  
Summary of Major Grants**

	<u>Actual FY 2002</u>	<u>Adjusted Appropriation FY 2003</u>	<u>Adjusted Allowance FY 2004</u>
<b>Office of the Secretary</b>			
Maryland Minority Contract Procurement Center	100,000		
<b>Total – Office of the Secretary</b>	<b>\$100,000</b>		
<b>Division of Business Development</b>			
Maryland Israel Development Corp.	113,500	97,750	75,000
World Trade Center Institute	202,250	177,250	161,800
Small Business Foreign Trade Grants	150,000	135,000	100,000
<b>Total – Division of Business Development</b>	<b>\$465,750</b>	<b>\$410,000</b>	<b>\$336,800</b>
<b>Division of Financing Programs</b>			
University of Maryland			
Department of Budget & Management			
TEDCO (MIPS)	230,000	200,000	
TEDCO (Operating Support)	2,250,000	2,750,000	
<b>Total – Division of Financing Programs</b>	<b>\$2,480,000</b>	<b>\$2,950,000</b>	
<b>Division of Tourism, Film, and the Arts</b>			
Downtown Partnership	100,000	100,000	100,000
BACVA	750,000	250,000	-
Volvo Ocean Race	250,000	-	-
Historic National Seaport	100,000	-	-
Ward Waterfowl Museum	100,000	100,000	-
Capital Region USA, Inc.	305,000	305,000	300,000
Local County Tourism Programs	146,976	146,978	146,978
County Tourism Cooperative Grant	1,000,000	1,000,000	1,000,000
<b>Maryland State Arts Council Grants:</b>			
Baltimore Symphony Orchestra	1,769,360	1,663,078	
BSO Asia Tour	250,000	500,000	
Annapolis Symphony Orchestra	49,278	53,693	
The Walters Art Gallery	866,513	794,330	
The Baltimore Museum of Art	934,259	814,828	
Center Stage Associates, Inc.	516,798	438,858	
Baltimore Opera Company, Inc.	500,000	500,000	
Maryland-National Capital Park and Planning	287,041	206,000	
American Visionary Art Museum, Inc.	175,000	175,000	
Olney Theater Center for the Arts	260,618	257,145	
Round House Theater, Inc.	214,727	206,365	
Maryland Hall for the Creative Arts	60,000	58,000	
Strathmore Hall Arts Center	100,954	104,869	

**T00 - Department of Business and Economic Development**

	<b>Actual FY 2002</b>	<b>Adjusted Appropriation FY 2003</b>	<b>Adjusted Allowance FY 2004</b>
Maryland Symphony Orchestra	67,019	69,704	
The Ward Foundation, Inc.	62,063	45,849	
Jewish Community Center of Washington	80,000	80,000	
Imagination Stage, Inc. (formerly BAPA)	76,000	84,750	
Liz Lerman Dance Exchange	72,000	85,000	
Baltimore's Festival of the Arts, Inc.	59,129	56,608	
Jewish Community Center of Balto./Gordon Ctr	62,000	62,212	
Maryland Historical Society	62,000	64,000	
National Council for the Traditional Arts	67,560	50,000	
The Writer's Center	54,636	50,499	
Young Audiences of Maryland, Inc.	49,000	48,000	
National Chamber Orchestra Society, Inc.	227,509	200,000	
Grants to All Other Arts Organizations	2,334,507	2,264,879	
<b>Subtotal – Grants to Arts Organizations *</b>	<b>\$9,257,971</b>	<b>\$8,933,667</b>	<b>\$10,855,398</b>
Community Arts Development	2,049,654	1,826,458	2,166,536
Artists in Education	748,508	559,000	560,507
Individual Artists and Other Programs	402,246	289,080	289,080
<b>Total – Maryland State Arts Council</b>	<b>\$12,458,379</b>	<b>\$11,608,205</b>	<b>\$13,871,521</b>
<b>Total – Division of Tourism, Film, and the Arts</b>	<b>\$15,210,355</b>	<b>\$13,510,183</b>	<b>\$15,418,499</b>
<b>Division of Regional Development</b>			
<b>Regional Office Grants</b>			
Montgomery County	49,018	32,500	15,000
Tri-County Council of Western Maryland	118,423	59,061	40,000
College of Southern Maryland	183,574	119,609	180,000
Chesapeake College	67,376	60,794	30,000
Regional Support Services	-	274,865	191,731
<b>Community Development</b>			
Appalachian Regional Commission	14,395	17,240	16,378
Technical Assistance	-	50,788	38,054
World Trade Center Institute	98,201	73,201	73,201
Tri-County Council of Western Maryland	278,896	188,951	179,503
Tri-County Council of Southern Maryland	194,990	184,123	174,917
Delmarva Advisory Council	9,604	9,124	8,668
Mid-Shore Regional Council	75,000	190,000	180,500
Tri-County Council Lower Shore	75,000	190,000	180,500
Greater Baltimore Technology Council	134,456	127,733	121,346
Technology Council of Maryland	201,684	191,600	182,020
University of Baltimore	30,100	-	-
University of Maryland At Baltimore	15,000	-	-
Regulatory Research	-	27,975	-

**T00 - Department of Business and Economic Development**

	<b><u>Actual</u></b> <b><u>FY 2002</u></b>	<b><u>Adjusted</u></b> <b><u>Appropriation</u></b> <b><u>FY 2003</u></b>	<b><u>Adjusted</u></b> <b><u>Allowance</u></b> <b><u>FY 2004</u></b>
<b>Military and BRAC Assistance</b>			
Southern Md. Navy Alliance	25,000	50,000	-
Army Alliance	137,100	50,000	-
Montgomery County	22,000	22,000	-
Town of Indian Head	-	25,000	-
Maryland Maritime and Technology	50,000	-	-
Military and BRAC Assistance	-	90,500	220,876
<b>Workforce Development and Coordination</b>			
GWIB	50,743	35,329	33,563
Maryland Industrial Training Program	5,584,533	3,780,000	3,680,000
Partnership for Workforce Quality	3,850,000	2,945,000	2,691,250
<b>Small Business Development</b>			
University Of Maryland – SBDC	490,000	95,000	90,250
SACF – Booth	842,401	240,090	39,035
Towson University	100,000	-	-
Strategic Positioning Program (SPP)	148,463	140,876	90,876
University of Maryland - PTAC	-	150,000	-
Microenterprise Council (through DHCD) **	180,000		
<b>Rural Development Grants (MAERDA)***</b>			
Maryland Rural Health Association	40,000	35,000	-
Department of Agriculture	173,320	143,680	-
Salisbury University	20,000		-
Dept of Housing	67,500	107,000	-
DNR	41,000	-	-
Chesapeake Bay Regional Tech Center	-	15,000	-
College of Southern Maryland	-	25,000	-
Crisfield Development Corp	-	25,000	-
Southern Maryland RC and D	-	15,000	-
Tri County Council Southern MD	-	15,000	-
University of Maryland Eastern Shore	-	25,000	-
<b>Total – Division of Regional Development</b>	<b>\$13,367,777</b>	<b>\$9,827,039</b>	<b>\$8,457,668</b>
<b>Total DBED</b>	<b>\$31,623,882</b>	<b>\$26,697,222</b>	<b>\$24,312,967</b>

\*The distribution of Maryland State Arts Council grants to arts organizations for fiscal 2004 is not known at this time.

\*\* The fiscal 2003 funding for the Microenterprise Council (\$180,000 GF) was transferred from DBED to DHCD by DBM in the process of establishing base budget levels for fiscal 2003.

\*\*\*The distribution of fiscal 2003 Grant funds under the Maryland Agriculture Education & Rural Development Assistance fund Act is not known at this time.