

**T00F**

**Department of Business and Economic Development – PAYGO**

***Maryland Economic Development Assistance Fund (Statewide)***

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<b>PAYGO SF</b>	<b>11,750,000</b>	<b>Recommendation:</b>	<b>Reduce \$7,000,000</b>
<b>GO Bonds</b>	<b>14,000,000</b>		<b>GO bonds</b>

**Bill Text:** Maryland Economic Development Assistance Fund. Provide funds for grants and loans to local jurisdictions, businesses, and MEDCO for economic development projects within priority funding areas and eligible industry sectors. The funds appropriated for this purpose shall be administered in accordance with Article 83A, Section 5-1401 through 5-1411.

**Program Description:** The Maryland Economic Development Assistance Fund (MEDAF) was established by the General Assembly under Chapter 301, Acts of 1999 to provide below market long-term fixed rate financing to specific growth industry sector businesses locating or expanding operations in a priority funding area. Funds may be used for current business needs including property acquisition, construction, or renovation of buildings including leasehold improvements and capital equipment.

Within MEDAF there are five funding capabilities:

- Significant strategic economic development opportunities – These are projects that will provide a significant economic development opportunity on a statewide or regional level.
- Local economic development opportunities – These are projects that provide a valuable economic opportunity to the jurisdiction and are a priority of that jurisdiction.
- Direct assistance to local jurisdictions or MEDCO – This is financial assistance to a local jurisdiction for local economic development needs.
- Regional or local revolving loan fund – This fund provides grants to local jurisdictions to help capitalize local revolving loan funds.
- Special purpose loans – These are loans to target specific funding initiatives deemed critical to the State’s economic health and development.

Chapter 216, Acts of 2004 consolidated the Smart Growth Economic Development Infrastructure Fund (One Maryland) into the Maryland Economic Development Assistance Fund (MEDAF) which provides financial assistance for infrastructure and real estate projects in qualified distressed jurisdictions. There are eight jurisdictions that qualify as distressed counties: Allegany, Caroline, Cecil, Dorchester, Garrett, Somerset, Worcester, and Baltimore County. Assistance can be provided

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*T00F – Department of Business and Economic Development – PAYGO*

for the purpose of financing the cost of acquisition, improvements and rehabilitation of land or industrial sites and parks, development of water and sewer lines, shell buildings, and other needed infrastructure projects. The One Maryland program is administered under capability Number 3.

**Program Performance:** One of the measures of the success of the MEDAF program is the number of projected jobs created and retained as a result of MEDAF investment. As shown in **Exhibit 1**, according to the department, 4,577 jobs are projected to be created and retained in fiscal 2004 due to a MEDAF investment.

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**Exhibit 1**  
**Maryland Economic Development Assistance Fund**  
**Projected Jobs Created and Retained**  
**Fiscal 2002 through 2004**

	<u><b>FY 2002</b></u>	<u><b>FY 2003</b></u>	<u><b>FY 2004</b></u>
Projected Jobs Created	7,282	2,229	2,477
Projected Jobs Retained	<u>7,485</u>	<u>4,932</u>	<u>2,080</u>
Total	14,767*	7,161	4,557
<b>Total Approved Projects</b>	81	56	60

\*Fiscal 2002 included several large projects that increase the projected jobs created and retained significantly.

Source: Department of Business and Economic Development

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Although the Department of Business and Economic Development (DBED) provides the General Assembly with performance data about its programs, a recent legislative audit of the department's fiscal 2003 performance measures disclosed significant problems regarding the quality of information related to job creation and other performance measures. In particular, the number of jobs projected to occur with the respective year's approvals was determined to be inaccurate due the absence of formal quality control processes to review and verify the accuracy of the performance results. The fiscal 2003 audit of DBED's Managing for Results performance measures are reviewed in the DBED operating analysis. **The Department of Legislative Services (DLS) recommends that DBED brief the committees on the progress the department is making to implement quality control standards to ensure the accuracy of the performance data.**

The MEDAF statute requires the department to submit an annual report of the activities of the program. According to the December 31, 2004 report, the authority approved 56 projects totaling \$18.8 million in encumbrances during fiscal 2004. The program also booked \$2.2 million in cancelled encumbrances. The breakdown of the encumbrances by funding capability is provided in **Exhibit 2** below.

**Exhibit 2**  
**Fiscal 2004 Encumbrance Activity**

<u>Capability</u>	<u>Total Number of Projects</u>	<u>Approved</u>
1 Significant strategic economic development	2	\$2,000,000
2 Local economic development opportunity	20	6,060,000
3 Direct assistance to local jurisdictions or MEDCO (One Maryland Projects)	26	8,662,486
4 Regional or local revolving loan funds	1	250,000
5 Special purposes grant and loans	7	<u>1,825,853</u>
<b>Total</b>	<b>56</b>	<b>\$18,798,339</b>

Source: Department of Business and Economic Development MEDAF Annual Report

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**Comments:** The fiscal 2006 allowance provides a total of \$25.8 million comprised of \$11.8 million in special funds and \$14.0 million in general obligation (GO) bond funds. This represents a \$2.0 million increase over the fiscal 2005 appropriation of \$23.8 million. The increase is due to a \$2.0 million increase in the GO bond appropriation. The fiscal 2006 budget as introduced provides a capital PAYGO special fund appropriation for MEDAF. However, the Department of Budget and Management has indicated that it intends to amend the operating budget bill through a supplemental bill in order to change the special fund allowance from a capital PAYGO appropriation to a business assistance appropriation. The use of special funds in the capital PAYGO budget creates the requirement that the special funds finance capital assets with a useful life of 15 years or greater. Shifting MEDAF to a business assistance program eliminates the 15-year requirement for the special funds allowing the department greater flexibility.

In fiscal 2005, the department plans on encumbering \$34.5 million, exceeding the authorization by approximately \$10.7 million. As of January 31, 2005, DBED has encumbered \$20.8 million and has approximately \$3.5 million in the Qualified Recipient Pipeline (signed agreement from company, awaiting formal DBED approval). If fiscal 2005 encumbrances exceed the \$23.8 million currently authorized, the department will have to process a budget amendment to increase the appropriation. The increased appropriation will draw down the programs existing revenue decreasing the fund balance. Additionally, year-to-date fiscal 2005 encumbrances are structured as conditional loans, grants and investments. Only one project totaling \$500,000 is structured as a loan. If the department continues to structure the majority of its projects utilizing financing mechanisms that do not require repayment, the effect will be to decrease future special fund revenue generation significantly. This concern is discussed in more detail in the Issues section.

## ***Fund Data***

### **Fund History**

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
<b>Beginning Balance</b>	\$14,093	\$18,434	\$12,465
<b>REVENUE</b>			
GO bonds	7,500	12,000	14,000
Investment Income	499	350	300
Interest Income	3,502	3,534	3,512
Loan Repayments	15,796	9,078	9,956
Grant Repayments	295	400	400
Other Income	19	2	2
<b>TOTAL REVENUE</b>	27,611	25,364	28,170
<b>TOTAL AVAILABLE</b>	41,704	43,798	40,635
<b>ENCUMBRANCES</b>			
Encumbrance –GO bond eligible	7,500	12,000	14,000
Encumbrances/Approval Activity – other**	20,632	*22,542	20,400
Cancelled Encumbrances	-6,700	-5,355	-5,000
Operating Expenses	593	593	623
Indirect Expenses	1,250	1,553	1,594
Prior Period Operating/Indirect Adjustment	-5	0	0
<b>TOTAL ENCUMBRANCES</b>	23,270	31,333	31,617
<b>Ending Balance</b>	\$18,434	\$12,465	\$9,018

\* Encumbrances as of 1/31/05 = \$20,845,426

\*\* A budget amendment is planned in fiscal 2005 to appropriate additional special funds.

Note: In fiscal 2005, the Smart Growth Economic Development Infrastructure (One Maryland) Program was consolidated with the MEDAF program.

*T00F – Department of Business and Economic Development – PAYGO*

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007* Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	\$25.500	\$11.750	\$11.750	\$0.000	\$0.000	\$0.000	\$0.000
GO bonds	0.000	12.000	14.000	15.000	17.500	17.500	17.500
<b>Total</b>	<b>\$25.500</b>	<b>\$23.750</b>	<b>\$25.750</b>	<b>\$15.000</b>	<b>\$17.500</b>	<b>\$17.500</b>	<b>\$17.500</b>

\*The Department of Budget and Management is planning on transferring the MEDAF program from the capital budget to the operating budget in fiscal 2006. As a result, future year estimated PAYGO appropriations are not provided for fiscal 2007 through 2010.

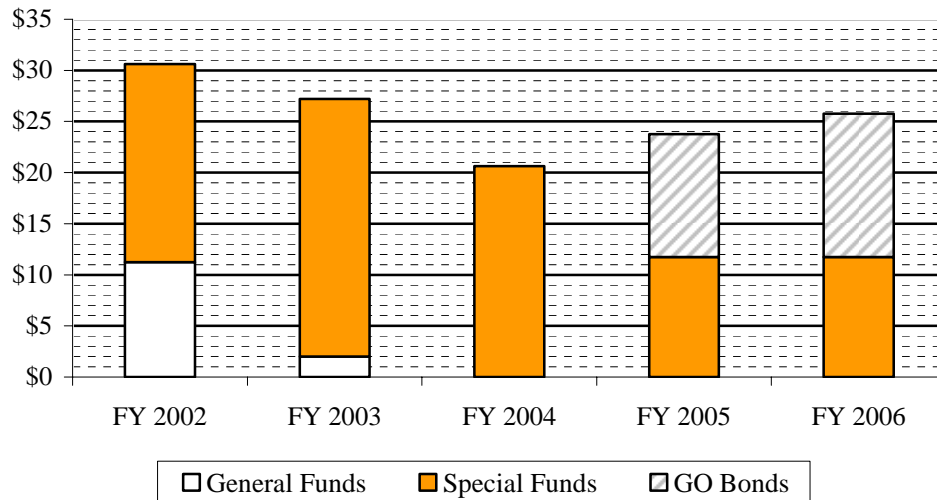
## *Issues*

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### **1. MEDAF Conditional Loan/Grant and Investment Activity Increasing as a Percentage of the Portfolio**

Prior to fiscal 2005, MEDAF was traditionally funded with pay-as-you-go (PAYGO) funds. However, beginning in fiscal 2004, due to a shortage of available general funds, the program was exclusively funded with special funds. As shown in **Exhibit 3**, general and special fund appropriations for MEDAF have decreased from \$30.6 million in fiscal 2002 to \$11.8 million in fiscal 2006. Fiscal 2005 was the first year the program received a GO bond appropriation.

**Exhibit 3**  
**Maryland Economic Development Assistance Fund Funding Mix**  
**Fiscal 2002 through 2006**  
**(\$ in Millions)**



Source: Department of Legislative Services

Chapter 305, Acts of 2000 consolidated several programs into MEDAF. As shown in **Exhibit 4**, since the consolidation, the department has closed a total of 174 transactions with an aggregate original balance of \$60.4 million. Of these transactions, 56% were structured as grants, conditional loans, or investments totaling \$33.9 million; and 44% were structured as loans totaling \$26.5 million. At the time of consolidation, MEDAF Capabilities 1 and 2 (Significant strategic economic development opportunities and local economic development opportunities) were intended to be used primarily as low interest loan programs. However, according to the department, due to decreasing general and special fund appropriations, the percentage of the portfolio committed as loans has decreased substantially. In fiscal 2005, as Exhibit 4 indicates, 74% of the MEDAF portfolio is committed as conditional loans, grants, or investments, where as only 26% is committed as low interest loans. According to DBED, as an alternative to providing a few large loans, the department has instead chosen to increase the number of investments, small grants, and conditional loans. This policy, according to the department, has enabled MEDAF to provide financing for an increased number of projects. However, it has in effect, transformed MEDAF from a loan program to primarily a conditional grant program. If MEDAF continues to function primarily as a conditional grant program, special fund revenue will decrease, jeopardizing the programs ability to recapitalize itself. **The Department of Legislative Services recommends that DBED brief the committees on why a substantial portion of the MEDAF portfolio is comprised of grants, conditional loans, or**

investment activity as opposed to low interest loans. DLS also recommends the department brief the committees on the long-term ability of the portfolio to generate special fund revenue and to recapitalize itself given that much of the future portfolio will have no repayment stream.

**Exhibit 4**  
**Maryland Economic Development Assistance Fund**  
**Grant/Loan Ratio**

<u>Form of Assistance</u>	<u>Portfolio*</u>	<u>% of Total</u>	<u>Committed but Undisbursed Funds**</u>	<u>% of Total</u>
Conditional Grant/Loan or Investment	\$33,837	56%	\$26,735	74%
Loan	26,537	44%	9,606	26%
<b>Total</b>	<b>\$60,374</b>		<b>\$36,341</b>	
Number of Transactions	174		52	

\* Portfolio since consolidation in fiscal 2001

\*\*As of January 31, 2005 – includes undisbursed commitments from prior years.

Investment – Conditional loan with an uncertain and undetermined time frame for repayment. Repayment is tied to performance requirements. If performance requirements are met, some or the entire loan will be forgiven. Of the \$26.7 million committed but undisbursed, \$14.6 million are investments.

Source: Department of Business and Economic

Additionally, beginning in fiscal 2005, MEDAF began receiving GO bond fund appropriations. The use of GO bond proceeds in the MEDAF program creates a requirement that the GO bond funds finance capital assets with a useful life of 15 years or greater. While One Maryland and infrastructure projects fit well with the 15-year capital asset restriction, other capabilities in the MEDAF program such as working capital loans, feasibility studies, revolving loan funds, furniture and fixtures, and brownfields assessments do not meet the 15-year life test and are unable to effectively utilizing the GO bond funds. Furthermore, the Internal Revenue Service limits the use of tax-exempt bonds for “private purpose” loans to the lesser of 5% of the bond sale’s proceeds or \$5 million per bond sale. Private purpose is defined as the use of a tax-exempt financed facility by any entity other than State controlled agencies or local governments. As shown in **Exhibit 5**, according to the 2005 *Capital Improvement Program*, loans made from MEDAF may qualify as private activity if GO bonds are used.

**Exhibit 5**  
**MEDAF Loans Possibly Subject to**  
**Federal Restrictions on the Use of Tax Exempt Financing**  
**Fiscal 2006 – 2010**  
**(\$ in Thousands)**

<u>Project</u>	<u>% Private</u>	<u>Private \$ by Fiscal Year</u>				
		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
MEDAF	100	\$14,000	\$17,500	\$17,500	\$17,500	\$17,500
<b>Total</b>		<b>\$14,000</b>	<b>\$17,500</b>	<b>\$17,500</b>	<b>\$17,500</b>	<b>\$17,500</b>

Source: Department of Budget and Management

***Recommended Actions***

- |   | <u>Funds</u> |
|---|--------------|
| 1. Reduce \$7.0 million in GO support for the Maryland Economic Development Assistance Fund (MEDAF). Based on the department's current pipeline of program activity, the available fund balance at the end of fiscal 2005 is projected to be \$12.5 million. Combining the \$14.1 million of projected fiscal 2006 special fund revenues and the \$7.0 million of fiscal 2006 proposed GO bond appropriation with the projected fund balance carried forward from fiscal 2005, the department will have approximately \$33.6 million of available funds from which to fund projects during fiscal 2006. | \$7,000,000  |

***Fiscal 2006 Proposed Projects***

The department expects to manage the activity level for fiscal 2006 by funding approximately \$31.6 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 2005 Project Status***

<u>Project</u>	<u>County</u>	<u>Form of Assistance</u>	<u>Amount</u>	<u>Capability</u>
American Healthways, Inc. (CB Richard Willis) / Project Izzy	Howard	Conditional Grant	150,000	2
Sycamore Associates	Frederick	Conditional Grant	15,000	2
Baltimore County / Gray's Road	Baltimore County	Grant	2,000,000	3
Board of County Commissioners Allegany County/ MD Motor Sports	Allegany	Grant	21,700	3
Branded Dairy Processing Feasibility Study ( Frederick County Comm )	Frederick	Grant	24,500	3
Canton Crossing LLC	Baltimore City	Grant	596,933	5
Charles Street Development Corp / Feasibility / Street	Baltimore City	Grant	2,651	3
Chesapeake Fields Institute / Feasibility Study	Kent	Grant	37,500	3
City of Cumberland	Allegany	Grant	20,000	3
County Commission of Frederick / Innovative Technology Center/Hood College Incubator	Frederick	Grant	425,000	3
County Commissioners of Allegany County North Branch Feasibility Study	Allegany	Grant	3,500	3
County Commissioners of Queen Anne's County	Queen Anne's	Grant	21,000	3
County Commissioners of Worcester County for Wallops Island Study	Worcester	Grant	5,000	3
Marine Trades Association	Anne Arundel	Grant	20,000	3
MEDCO//Northern Industrial Park Roof/Merkle Response Services, Inc.	Garrett	Grant	30,000	3
MEDCO/Canton Crossing/South Locus Point/ RTM STAR Center/Cruise Terminal Study	Baltimore City	Grant	69,399	3
Mid Shore Regional Councils	Talbot, ETAL	Grant	25,000	3
National Aquatium / City of Baltimore Development Corp/Central Garage	Baltimore City	Grant	22,931	5
Town of Perryville	Cecil	Grant	7,000	3
Montgomery County Technology Business Park @ Montgomery College (Germantown Campus)	Montgomery	Grant	100,000	3
Advanced BioSolutions, Inc BioPort Corp.Emergent Biosolution Inc Biologics Inc	Frederick	LCG	2,500,000	2
Boater's World Properties, LLP / Ritz Camera's Inc. dba Boater's World	Caroline	LCG	125,000	3
Burriss Logistics	Cecil	LCG	400,000	2
City of Baltimore Development Corp / Central Garage / National Aquarium	Baltimore City	LCG	45,500	3
Freeman Decorating Services, Inc	Prince Georges's	LCG	100,000	2
Internosis	Prince Georges's	LCG	200,000	2
Newell Operating Co., Inc./Newell Rubbermaid/Amercok Division	Howard	LCG	250,000	2
Worthington Armstrong Venture Enterprises (WAVE)	Harford	LCG	300,000	2
New Life Fulfillment Center	Baltimore City	Loan	10,000	4
Upper Chesapeake Flex One, LLC	Cecil	Loan	118,234	2
County Commissioners of St. Mary's County / (Flattops) Lexington Manor Northern Parcel	St. Mary's	Investment	3,000,000	3
Montgomery County Technology Business Park @ Montgomery College (Germantown Campus)	Montgomery	Investment	2,000,000	3
<b>Total Fiscal 2005 Year-to-date Disbursements</b>			<b>12,645,848</b>	

<u>Project</u>	<u>County</u>	<u>Form of Assistance</u>	<u>Amount</u>	<u>Capability</u>
Committed but Undisbursed Funds – Funding has been approved				
Bethesda Culteral Alliance / Nederlander	Montgomery	Conditional Grant	375,000	5
Birchmere, Inc.	Montgomery	Conditional Grant	375,000	5
MEDCO/Calvert County Industrial Park/Hipple Property	Calvert	Conditional Grant	750,000	3
Mills Corporation	Montgomery	Conditional Grant	1,160,000	2
National East LLC ( Brewers Hill )	Baltimore City	Conditional Grant	36,700	5
NB 3601, LLC.	Baltimore City	Conditional Grant	150,000	2
Univec	Baltimore City	Conditional Grant	50,000	2
Carroll County Foods	Carroll	Conditional Loan	125,000	3
Board of Co. Commissioners of Allegany Co./ Barton Farms - Sewage Treatment Plant (STP)	Allegany	Conditional Loan	1,000,000	3
Board of Commissioners Allegany County/ Barton Business Park Electric Substation	Allegany	Conditional Loan	1,000,000	3
Baltimore Development Corp -Biddle St	Baltimore City	Grant	45,500	5
BRAC Feasibility Study	Various	Grant	242,000	5
Canton Crossing LLC ( Dock )	Baltimore City	Grant	656,106	5
Canton Crossing LLC ( Tower )	Baltimore City	Grant	213,224	5
Cecil County Commissioners	Cecil	Grant	26,762	3
Charles County Economic Development Commission / Strategic Econ Dev Plan	Charles	Grant	27,783	3
Charles Street Development Corp / Feasibility / Street	Baltimore City	Grant	4,378	3
City of Aberdeen / APG Airfield Feasibility Study	Harford	Grant	210,000	2
Emanuel Tire	Baltimore City	Grant	38,500	3
Gunther Bottle, LLC	Baltimore City	Grant	21,000	5
Gunther Headquarters, LLC	Baltimore City	Grant	22,000	5
Maryland Stadium Authority Baltimore Arena / Feasibility Study	Baltimore City	Grant	70,000	3
MEDCO/ Circulator Study	Baltimore City	Grant	100,000	3
National Aquatium / City of Baltimore Development Corp/Central Garage	Baltimore City	Grant	21,069	5
Salisbury Mall Property Feasibility Study	Wicomico	Grant	5,000	3
TV One LLC	Montgomery	Grant	75,000	2
Worcester County Tyson Strategic Plan	Worcester	Grant	20,000	2
Worthington Armstrong Venture Enterprises (WAVE)	Harford	Grant	200,000	2
Board Commissioners Allegany County American Woodmark	Allegany	LCG	750,000	2
Domino	Baltimore City	LCG	650,000	2
Home Depot / Your Other Warehouse (Phase II)	Washington	LCG	300,000	2
Home Depot/Your Other Warehouse (Phase I)	Washington	LCG	300,000	2
Jos. A Banks	Carroll	LCG	400,000	2
Lowe's Home Centers, Inc.	Washington	LCG	150,000	2

<u>Project</u>	<u>County</u>	<u>Form of Assistance</u>	<u>Amount</u>	<u>Capability</u>
Mack Trucks (Phase I)	Washington	LCG	1,500,000	1
Mack Trucks (Phase II)	Washington	LCG	500,000	1
NeighborCare	Baltimore City	LCG	250,000	2
Rescar Industries Inc.	Cecil	LCG	30,000	2
Tractor Supply Company	Washington	LCG	250,000	2
County Commissioners of Somerset County ( Revells Neck Road Water Project s)	Somerset	Loan	500,000	3
Intelsat/Staubach/Mountaininsider Teleport Corp	Washington	Loan	600,000	2
MEDCO / Hi-Tech Plastics	Dorchester	Loan	755,685	3
Mondawmin Mall	Baltimore City	Loan	3,600,000	3
Paul Reed Smith Guitars	Queen Anne's	Loan	1,500,000	3
MEDCO/Dorchester Technology Park	Dorchester	Loan	1,650,000	3
Morgan Stanley (Day Care)	Baltimore City	Loan	1,000,000	5
Carroll County IDA Warfield's Hospital Site (Sykesville)	Carroll	Investment	2,000,000	3
Carroll County IDA Warfield's Hospital Site (Sykesville)	Carroll	Investment	2,000,000	3
Board of Commissioners of Allegany County/Barton Farms -Land	Allegany	Investment	135,000	3
County Commissioners of St. Mary's County / (Flattops) Lexington Manor Northern Parcel	St. Mary's	Investment	3,000,000	3
Mayor and City Council of Baltimore / National Aquarium in Baltimore	Baltimore City	Investment	5,000,000	3
MEDCO / Patuxent Business Park Office Building (Hipple Property Spec Bldg.)	Calvert	Investment	2,500,000	3
<b>Total Committed but Undisbursed</b>			<b>\$36,340,707</b>	

**Qualified Recipient Pipeline -- signed agreement from company, awaiting formal approval**  
 (will also include formal request from a local government)

The Qualified Recipient Pipeline includes 8 projects totaling \$9.1 million

Note: LCG - loan convertible to a grant

**Fiscal Summary  
Department of Business and Economic Development – PAYGO**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
23 Maryland Economic Development Assistance Fund	\$ 20,631,986	\$ 11,750,000	\$ 11,750,000	\$ 0	0%
<b>Total Expenditures</b>	<b>\$ 20,631,986</b>	<b>\$ 11,750,000</b>	<b>\$ 11,750,000</b>	<b>\$ 0</b>	<b>0%</b>
Special Fund	\$ 20,631,986	\$ 11,750,000	\$ 11,750,000	\$ 0	0%
<b>Total Appropriations</b>	<b>\$ 20,631,986</b>	<b>\$ 11,750,000</b>	<b>\$ 11,750,000</b>	<b>\$ 0</b>	<b>0%</b>

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.