

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$55,489	\$57,590	\$59,688	\$2,097	3.6%
Special Fund	16,082	26,772	28,086	1,315	4.9%
Federal Fund	581	558	594	36	6.5%
Reimbursable Fund	<u>470</u>	<u>363</u>	<u>363</u>	<u>0</u>	
Total Funds	\$72,623	\$85,283	\$88,731	\$3,448	4.0%
Contingent & Back of Bill Reductions			-1,303	-1,303	
Adjusted Total	\$72,623	\$85,283	\$87,428	\$2,145	2.5%

- After adjusting for the contingent reductions, the fiscal 2006 budget allowance increases 2.5%, or \$2.1 million, from \$85.3 million in fiscal 2005 to \$87.4 million in fiscal 2006.
- The increase in the allowance is primarily due to a \$6.0 million increase in general funds to establish a film production wage rebate grant program. The establishment of the program is contingent on the enactment of legislation. The increase is partially offset by a \$3.7 million decrease in general funds for the business assistance programs. Overall, the business assistance programs are decreasing \$3.2 million, or 12.3% primarily due to a \$2.9 million decrease in funding for the Enterprise Investment Fund.
- The \$1.3 million increase in special funds is largely due to a \$550,000 increase in support for business assistance programs and a \$250,000 increase in Partnership for Workforce Quality grants.
- The Governor's fiscal 2006 budget includes three reductions contingent on the enactment of budget reconciliation legislation: a general fund reduction of \$1.0 million for the Tourism Board, a general fund reduction of \$180,000 for the Maryland State Arts Council, and the deletion of \$122,818 for the statewide deferred compensation match in fiscal 2006.
- Excluding the Wage Rebate grant program and including the contingent reductions, the Department of Business and Economic Development's (DBED) fiscal 2006 allowance decreases 4.5%, or \$3.9 million from fiscal 2005, and general funds decrease 8.9%, or \$5.1 million.

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

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Personnel Data

	<u>FY 04 Actual</u>	<u>FY 05 Working</u>	<u>FY 06 Allowance</u>	<u>FY 05-06 Change</u>
Regular Positions	299.00	299.00	298.00	-1.00
Contractual FTEs	<u>36.70</u>	<u>36.10</u>	<u>32.20</u>	<u>-3.90</u>
Total Personnel	335.70	335.10	330.20	-4.90

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	8.55	2.87%
Positions Vacant as of 12/31/04	15.00	5.02%

- DBED’s fiscal 2006 regular position count is 298.0 after the abolition of 1 vacant position.
- DBED’s budgeted turnover rate of 2.87% requires an average of 8.55 vacant positions throughout fiscal 2006 to achieve the \$649,688 in savings required. The agency’s current number of vacant positions is 15. However, after adjusting for the abolition of the vacant position, the department’s adjusted number of vacant positions is 14, or 4.7% of DBED’s workforce; 9 positions have been vacant for less than 6 months; 3 have been vacant for less than 12 months; and 2 have been vacant for longer than 12 months.
- The fiscal 2006 allowance deletes 3.9 contractual positions. The deleted positions represent fractions of positions spread over six divisions. The minor variance within each division reflects the actual usage based on the departmental reorganization.

Analysis in Brief

Issues

Managing for Results Fiscal 2003 Follow-up Audit: The Department of Legislative Services, Office of Legislative Audits conducted a performance audit of selected DBED Managing for Results performance measures reported in fiscal 2003. The audit was conducted as a follow-up audit to the fiscal 2001 audit which identified significant quality control problems surrounding the performance measures. The follow-up audit tested six measures similar in purpose to the ones reviewed in the fiscal 2001 audit for reliability. All six measures were determined to be unreliable and, therefore, were unable to be certified as reasonably accurate. **The Department of Legislative Services (DLS) recommends that the department brief the committees on the progress of the department to implement quality control standards and to more closely align the relationship between strategic planning, budget management, and Managing for Results data.**

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The Maryland Economic Adjustment Program Should Not Be Funded in Fiscal 2006 Due to Excessive Administrative Expenses: The Maryland Economic Adjustment Fund (MEAF) is a non-lapsing revolving loan fund designed to provide loans or grants to new or existing small and disadvantaged businesses that are located in areas suffering as a result of a decline in defense spending and who are also unable to qualify for private financing. Over the past few years, program activity has been low and its administrative costs excessive. However, in 2005, the U.S. Department of Defense is set to go through another round of the Base Realignment and Closure (2005 BRAC) process. The effect of BRAC 2005 on Maryland is uncertain; however, it is likely that it will take a number of years before communities begin to feel the effects. At that time, MEAF programmatic activity is likely to increase. **DLS recommends that DBED brief the committees on why the administrative expenses for this program are excessively high, especially in comparison to the number of annual loans the program provides.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete an Executive Director position.	\$ 74,714	1.0
2. Delete two vacant positions.	119,039	2.0
3. Reduce funding for the Maryland Enterprise Investment Fund.	2,000,000	
4. Delete funds supporting the Maryland Economic Adjustment Fund.	750,000	
5. Implement Governor's proposed reduction for the Maryland Tourism Board.	1,000,000	
6. Implement the Governor's proposed reduction for the Maryland State Arts Council.	180,000	
7. Reduce the allowance for the Employer Wage Rebate Grant Program.	4,000,000	
8. Adopt committee narrative requesting a report on Film Production Activity created as a result of the Film Production Employer Wage Rebate Grant Program.		
9. Delete two Assistant Secretary positions.	250,000	2.0
10. Reduce funding for the Partnership for Workforce Quality grants.	250,000	
Total Reductions	\$ 8,623,753	5.0

Updates

Department of Business and Economic Development Reorganization: In 2003 DBED began a departmental reorganization to bring a more regional focus to business development. This update discusses DBED's progress over the past year to regionalize its business development divisions and how those changes are impacting Maryland businesses.

Preakness Promotional Activities and Economic Development Strategies: Committee narrative included in the 2004 *Joint Chairmen's Report* directed DBED to provide a report detailing the economic development strategy utilized by the department during Preakness to promote economic development in Maryland, the breakdown of fiscal 2002, 2003, and 2004 actual expenditures related to Preakness promotional activities, and the sources of that funding. This update provides a review of the report.

Summary of Major Grants: The fiscal 2006 allowance provides \$17.5 million to support various grants administered by DBED. The majority of the grants are provided to the Maryland State Arts Council, which receives \$10.8 million in fiscal 2006. This update provides a list of those grants.

T00
Department of Business and Economic Development

Operating Budget Analysis

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 Assistant Secretary, Office of Tourism Development, Maryland Tourism Board, Maryland Film Office, and the Maryland State Arts Council.

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- ***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 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.

Business Assistance Programs

In fiscal 2005, the following four programs receiving capital PAYGO appropriations were transferred to the operating budget: the Maryland Small Business Development Financing Authority, the Maryland Enterprise Investment Fund, the Maryland Economic Adjustment Fund, and the Economic Development Opportunities Program Fund. The use of special funds in the capital PAYGO budget created the requirement that the special funds finance capital assets with a useful life of 15 years or greater. Shifting the capital PAYGO appropriation to a business assistance appropriation eliminates the 15-year requirement for the special funds allowing the department greater flexibility.

- ***Maryland Small Business Development Financing Authority (MSBDFA):*** provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172, Acts of 2001 broadened MSBDFA's eligibility to include all businesses that are unable to obtain adequate business financing on reasonable terms through private lending institutions due to the institutions credit criteria. A private contractor, currently Meridian Management Group, Inc. (MMG), reviews the financing applications for presentation to the MSBDFA board. MSBDFA is comprised of the following four programs: Contract Financing Program (CFP), Long-term Guaranty Program (LTGP), Surety Bond Program (SBP), and the Equity Participation Investment Program (EPIP).
- ***Maryland Enterprise Investment Fund (Enterprise):*** provides capital through equity purchases for start-up companies who are developing innovative technologies. Investments are limited to 25% of the company's total equity and require a three-to-one outside investor co-match. Individual investments, except those made in venture capital limited liability companies, are limited to \$500,000 and may not exceed 15 years in duration.
- ***Maryland Economic Adjustment Fund (MEAF):*** provides loans to new or existing companies in communities suffering dislocation due to defense adjustments. It is not a requirement of the program that recipients are companies that have suffered as a result of a decline in defense spending, only that the firms reside in an area suffering dislocation due to defense adjustments.
- ***Economic Development Opportunities Program Fund (Sunny Day):*** provides conditional loans and investments to allow the State to take advantage of extraordinary economic development opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged.

Performance Analysis: Managing for Results

Please refer to the Issues section on page 13 for a discussion of the department's Managing for Results (MFR) performance.

Governor's Proposed Budget

As shown in **Exhibit 1**, the Governor's fiscal 2006 budget includes three reductions contingent on the enactment of a provision in the 2005 budget reconciliation legislation:

- \$1,000,000 in general funds to reduce the appropriation for the Maryland Tourism Board. The Budget Reconciliation and Financing Act of 2004 rebased the mandated funding requirement for the Maryland Tourism Development Board at \$6.0 million annually. The 2006 allowance provides an appropriation of \$6.5 million but also includes language reducing the appropriation \$1.0 million contingent on the enactment of a provision in the 2006 budget reconciliation legislation. After the contingent reduction, the board's 2006 allowance decreases \$397,549, or 7%.
- \$180,000 in general funds to reduce the appropriation for the Maryland State Arts Council. The Governor's budget increases the appropriation for the Maryland State Arts Council 3.5%, or \$412,682. The Governor is statutorily obligated to submit a budget for the Arts Council where the prior year's general appropriation increases by not less than the percentage by which the projected total general fund revenues for the upcoming fiscal year (fiscal 2006) exceed the revised estimate of total general fund revenues for the current fiscal year (fiscal 2005). The official Board of Revenue Estimates projects general funds increasing 2.6% from the December 2004 revised estimate to the December 2005 estimate. After the \$180,000 contingent reduction, the Art Council's allowance increases \$232,682, or 2%.
- \$122,818 for matching employee deferred compensation contributions up to \$600.

After adjusting for the contingent reductions, the Governor's fiscal 2006 allowance for DBED increases \$2.1 million, or 2.5% over the fiscal 2005 working appropriation. The majority of the increase is the result of a \$6.0 million increase in general funds for the establishment of a film production – employer wage rebate grant program. After adjusting for the contingent reductions and excluding the \$6.0 million increase in general funds for the new initiative, the fiscal 2006 allowance decreases 4.5%, or \$3.9 million from fiscal 2005, and general funds decrease 8.9%, or \$5.1 million. Personnel expense decreases \$130,509 due to the abolition of one vacant position, and contractual costs decrease \$103,078 due to the reduction of 3.9 full-time equivalents.

Exhibit 1
Governor's Proposed Budget
Department of Business and Economic Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2005 Working Appropriation	\$57,590	\$26,772	\$558	\$363	\$85,283
2006 Governor's Allowance	59,688	28,086	594	363	88,731
Contingent & Back of Bill Reductions	<u>-1,238</u>	<u>-61</u>	<u>-4</u>	<u>0</u>	<u>-1,303</u>
Adjusted Allowance	\$58,449	\$28,026	\$590	\$363	\$87,428
Amount Change	\$859	\$1,254	\$32	\$0	\$2,145
Percent Change	1.5%	4.7%	5.8%		2.5%

Where It Goes:

Personnel Expenses

Abolished/transferred positions	-\$131
Increments and other compensation.....	461
Employee and retiree health insurance	-146
Workers' compensation premium assessment	179
Turnover adjustments	30
Other fringe benefit adjustments.....	143

Other Changes

Contractual positions decrease 3.9 positions	-103
Decrease in web site development and maintenance expense	-102
Decrease in travel expense.....	-80
Decrease in communication expenses	-104
Increase in Department of Budget and Management paid telecommunication charges .	33
Decrease in special events, promotional activities, product development, and advertising for tourism and film	-145
Increase in Maryland State Arts Council grants – mandated increase.....	233
Decrease in tourism board funding	-398
Film production employer wage rebate grant program – new initiative.....	6,000
Decrease in various small regional development grants	-63
Decrease in rural council grants.....	-210
Decrease in Maryland Industrial Training Program grants.....	-480
Decrease in Downtown Partnership grant.....	-12
Increase in Partnership for Workforce Quality grants	250

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Where It Goes:

Business Assistance Programs

Maryland Small Business Development Financing Authority	-221
Maryland Enterprise Investment Fund.....	-2,929
Maryland Economic Adjustment Fund.....	45
Other	-105
Total	\$2,145

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

The 2006 allowance reduces general funds for grants in the Division of Regional Development 9%, or \$752,744. Significant general fund grant reductions include \$479,744 for the Maryland Industrial Training Partnership program, \$210,000 for rural council grants, and \$63,000 for various other small grants. The allowance also reduces the Downtown Partnership grant \$12,000 but increases the Partnership for Workforce Quality grant \$250,000.

New Initiative – Film Production Employer Wage Rebate Grant Program

The 2006 allowance includes \$6.0 million in general funds to establish the Film Production Employer Wage Rebate Grant program, contingent on enactment of Senate Bill 215/House Bill 253 of 2005. The program is established as a grant program and is therefore subject to an annual appropriation in the budget. The program would provide film production companies with a 50% rebate of wages paid in the production of any major film or commercial in Maryland, up to a maximum of \$2.0 million per production. The rebate does not apply to employees making over \$1.0 million. To qualify, a production must be intended for national distribution and must have at least \$500,000 of direct costs in the State. **Due to the State’s ongoing structural imbalance, the Department of Legislative Services (DLS) recommends reducing the allowance for the Film Production Employer Wage Rebate Grant Program \$4.0 million. This reduction still provides the program with a \$2.0 million appropriation.**

Business Assistance Programs

As shown in **Exhibit 2**, the allowance for the business assistance programs decreases \$3.2 million, or 12.3%, from the fiscal 2005 working appropriation. The decrease is primarily due to a \$2.9 million reduction in funding for the Enterprise Investment Fund. The allowance for MSBDFA is \$17.9 million, which represents a \$221,250 decrease, comprised of \$71,250 in general funds and \$150,000 in special funds. The allowance for MEAF provides \$750,000 in special funds. This represents a change from the fiscal 2005 appropriation of \$244,500 in general funds and \$550,000 in special funds. Over the past few years, program activity within MEAF has been low and its administrative costs excessive. This concern is more fully discussed in the Issues section. The Sunny Day Fund is not provided an appropriation in the fiscal 2006 allowance.

**Exhibit 2
Business Assistance Summary**

	<u>FY 2005</u> <u>Wk. Approp.</u>	<u>FY 2006</u> <u>Allowance</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Maryland Small Business Development Financing Authority	\$18,152	\$17,931	-\$221	-1.2%
Maryland Enterprise Investment Fund	6,929	4,000	-2,929	-42.3%
Maryland Economic Adjustment Fund	795	750	-45	-5.6%
Sunny Day Fund	0	0	0	0%
Total	\$25,876	\$22,681	-\$3,195	-12.3%
Fund Source				
General	\$8,601	\$4,856	-\$3,745	-43.5%
Special	17,275	17,825	550	3.2%
Total	\$25,876	\$22,681	-\$3,195	-12.3%

Source: Department of Legislative Services

MSDBFA

Senate Bill 148/House Bill 674, introduced in the 2005 session, proposes to raise the limits of assistance that can be offered by MSBDFA under the Contract Financing Program, the Surety Bond Program, and the Equity Participation Program. The proposed changes to the MSBDFA programs are presented in **Exhibit 3**. In addition, the legislation gives DBED the ability to extend the management contract with MSBDFA from June 30, 2007 to June 30, 2012, and includes a renewal option for up to two additional five-year terms. The legislation also stipulates that any investments or grants made by the Enterprise Fund that were funded by a transfer of money from MSBDFA funds, including an investment in Meridian Management Group (MMG) Ventures LLP, are repayable to MSBDFA rather than the Enterprise Fund. **DLS recommends that DBED comment on why a return on an Enterprise investment made by the Enterprise Fund through MSBDFA should remain in MSBDFA rather than be repaid to the Enterprise Fund.**

Exhibit 3
Proposed Changes to the MSBDF A Financing Programs

<u>Program</u>	<u>Current Law</u>	<u>Effect of Proposed Legislation</u>
Contract Financing	Financing is limited to \$500,000 – guarantees may not exceed 90% of loan.	Increase financing cap to \$1.0 million – guarantees may not exceed 90% of loan.
Surety Bond	Bonds limited to \$750,000 – guarantees may not exceed 90% of bond or \$900,000.	Increase bond limited to \$1.0 million – guarantees may not exceed 90% of bond or \$1.35 million.
Equity Participation	Investment limit is \$500,000 – may only invest in franchises and technology based business.	Increase investment limit to \$1.0 million – may invest in other types of businesses.

Source: Senate Bill 148/House Bill 674

Enterprise

The Enterprise Fund provides capital through equity purchases for start-up companies who are developing innovative technologies. In fiscal 2005, the Enterprise Fund has received investment earnings, of approximately \$5.3 million which has substantially increased the funds available to make investments. Based on the department’s fiscal 2005 pipeline of program activity and the \$5.3 million in investment earnings, the available fund balance could be as high as \$8.0 million at the end of fiscal 2005 rather than the \$3.2 million presented in the Governor’s fiscal 2006 budget books. Even if 50% of all of the projects listed by the department as prospects were to become actual encumbrances during fiscal 2005, the available fund balance would still be approximately \$5.9 million at the end of fiscal 2005. A general fund appropriation of \$1.5 million for the Enterprise and Challenge programs when combined with available special funds should provide a sufficient amount of funds to meet the department’s anticipated encumbrance level during fiscal 2006. **DLS recommends reducing general fund support for the Maryland Enterprise Investment Fund by \$2.0 million.**

Issues

1. Managing for Results Fiscal 2003 Follow-up Audit

Although 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. This audit was conducted as a follow-up audit to the fiscal 2001 audit which identified significant quality control problems surrounding the performance measures. The follow-up audit was completed to determine if the department had made significant progress to improve the reliability of the reported information.

As shown in **Exhibit 4**, the follow-up audit tested six performance measures similar in purpose to the ones reviewed in the fiscal 2001 audit for reliability, including the number of new and retained jobs. All six measures were determined to be unreliable and, therefore, were unable to be certified as reasonably accurate. The primary reason for the lack of certification was the absence of formal quality control processes to review and verify the accuracy of the performance results throughout the fiscal year. For example, the job creation and retention projections were inaccurate due in part to significant double counting, numerous reporting errors, and unsupported job claims. In addition, reported results were sometimes based on projects for which DBED had approved funding, but the company had not yet accepted DBED's offer.

**Exhibit 4
Certification Results for Selected Department of Business and Economic
Development Fiscal 2003 Performance Measures**

<u>Performance Measure</u>	<u>Reported Result</u>	<u>Level of Certification</u>	<u>Comments</u>
Estimated value of export sales by Maryland companies assisted by DBED (millions)	\$24.0	Inaccurate	Almost \$2 million of the export sales related to periods prior to fiscal 2003.
Number of new jobs projected to occur with the respective year's approvals	\$8,345	Inaccurate	Reported results were not always based on completed projects accepted by all parties, included significant double counting, and included numerous reporting errors and unsupported jobs claimed.
Number of retained jobs projected in the fiscal year's approvals	\$14,283	Inaccurate	
Dollar amount of total project costs projected to occur due to projects approved (millions)	\$497.0	Inaccurate	A test of 29 projects, with \$379 million in reported costs, disclosed that reported costs for 10 projects totaling \$72 million (19 percent) were not reliable because they were overstated, understated, or unsupported.
Office of Tourism Development			
Total travel expenditures (calendar year basis) (billions)	\$8.7	Factors Prevented Certification	The reported result was not consistent with the measure's definition.
Maryland Film Office			
Direct expenditures (millions)	\$49.9	Factors Prevented Certification	The department did not disclose that the reported results represented estimated expenditures reported by film companies rather than actual expenditures.

Source: Office of Legislative Audits – Managing for Results Fiscal Year 2003 Performance Measures

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The fiscal 2003 follow-up audit resulted in two findings:

Finding 1: DBED did not develop a comprehensive quality assurance process to ensure the reliability of the reported MRF data.

Finding 2: DBED could not document the routine use of MFR data in operational management and in the development of its annual budget.

In response to the audit findings, DBED has established an internal strategic planning and performance measurement task force that is responsible for:

- conducting a full-scale review of the current approach to performance measures; and
- developing a departmental strategic plan to incorporate performance measures in operational management and budget development.

After the task force has completed the plan, it will be submitted to DBM for review. In addition, DBED has recently implemented a new centralized customer relationship system to increase the accuracy and reliability of data gathering. DBED is also training staff to standardize and improve quality control for collection of performance data at the program level. **DLS recommends that the department brief the committees on the progress of the taskforce to implement quality control standards and to align the relationship between strategic planning, budget management, and MFR data. In addition, DLS recommends that DBED provide the General Assembly with a copy of its strategic plan addressing the quality assurance issues raised by the audit.**

2. The Maryland Economic Adjustment Program Should Not Be Funded in Fiscal 2006 Due to Excessive Administrative Expenses

The Maryland Economic Adjustment Fund program is a non-lapsing revolving loan fund designed to provide loans or grants to new or existing small and disadvantaged businesses that are located in areas suffering as a result of a decline in defense spending and who are also unable to qualify for private financing. Over the past few years program activity has been low and its administrative costs excessive. However, in 2005, the U.S. Department of Defense (DOD) is set to go through another round of the Base Realignment and Closure (BRAC 2005) process. A commission will be appointed in 2005 by Congress to select bases for closure and consolidation. According to DOD, final commission recommendations are scheduled for October 20, 2005, and the President will approve or disapprove of these recommendations by November 7, 2005. During the last BRAC process in 1995, three State facilities in Maryland were closed (Fort Holabird, Fort Richie, and the Naval Surface Warfare Division – Dahlgren Division Detachment); however, several bases in the State were expanded, and Maryland experienced a net gain. Therefore, the effect of BRAC 2005 on Maryland is uncertain. Additionally, although Fort Holabird and Fort Richie were recommended to be closed during the 1995 BRAC process, both forts did not officially close until 1998.

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Prior to the 2003 legislative session, DBED operated two small business financing programs, the Maryland Competitive Advantage Financing Fund (MCAFF) and MEAF. During the 2003 session, the General Assembly eliminated MCAFF through Chapter 203, Acts of 2003 (Budget Reconciliation and Financing Act of 2003), and MEAF became DBED's primary loan fund for providing small business loans. Upon elimination of the MCAFF program, DBED was authorized by the General Assembly to transfer the existing portfolio and the available fund balance of approximately \$897,000 into MEAF. However, as shown in **Exhibit 5**, with the addition of the MCAFF portfolio, the program has become very expensive to administer, and its loan activity has remained low even with the additional available fund balance. In fiscal 2004, it cost approximately \$121,139 per loan to administer the program. Even if MEAF doubles its activity in fiscal 2005, from 5 to 10 transactions, it would still cost approximately \$56,489 per loan. Furthermore, according to DBED's five-year projection, administrative expenses are not expected to decrease, and as a result, a substantial portion of the ongoing special fund revenues will be required to finance the administrative expenses.

Exhibit 5
Historical MEAF Loan Activity
Fiscal 2001 – 2004

<u>Fiscal Year</u>	<u>Project #</u>	<u>Approved Activity*</u>	<u>Expired Commitments</u>	<u>Rescissions</u>	<u>Disbursed</u>	<u>Operating Expenses</u>	<u>Cost per Loan</u>
2001	0	\$0	\$0	\$0	\$0	\$0	\$0
2002	5	805,000	475,000	100,000	195,000	92,394	18,479
2003	5	525,000	0	100,000	425,000	102,374	20,475
2004	5	690,000	0	80,000	100,000	605,697	121,139

*Approved activity means the credit has been approved and the money encumbered. Expired commitments and rescissions occur for numerous reasons including credit enhancements, such as guarantees falling through or the company forgoing the project.

Source: Maryland Economic Adjustment Fund Smart Report, June 30, 2002, 2003, and 2004 and the fiscal 2005 – 2009 *Capital Improvement Plan*

Due to the excessive cost of administering MEAF and the relative small number of loans that are provided by the program, DLS recommends that the MEAF program not be funded in fiscal 2006. It is unlikely that communities suffering as a result of the 2005 BRAC will need assistance as soon as fiscal 2006; however, if this is the case, the department may process a budget amendment requesting an appropriation. DLS advises that the department should consider restructuring the program to reduce its excessive administrative expenses. **DLS recommends that DBED brief the committees on why the administrative expenses for this program are excessively high, especially in comparison to the number of annual loans the program provides.**

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete an Executive Director position and associated funding through achieving efficiencies in Public Affairs/Communication PIN (045588). The Department of Business and Economic Development has a six-person office reporting to an Executive Director of Public Affairs within the Office of the Secretary. The Department of Legislative Services recommends that the agency realign its organizational structure so its public affairs positions are more closely aligned with the functions of government relations and policy development in the Division of Economic Policy, Research, and Legislative Affairs.	\$ 74,714	GF	1.0
2. Delete two vacant positions. Both positions have been vacant longer than 12 months.	119,039	GF	2.0
3. Reduce general fund support for the Maryland Enterprise Investment Fund. Based upon the department’s current pipeline of program activity, the available fund balance could be as high as \$8.0 million at the end of fiscal 2005 rather than the \$3.2 million presented in the Governor’s fiscal 2006 budget books. Even if 50% of all of the projects listed by the department as prospects were to become actual encumbrances during fiscal 2005, the available fund balance would still be approximately \$5.9 million at the end of fiscal 2005. A general fund appropriation of \$1.5 million for the Enterprise and Challenge programs when combined with available special funds should provide a sufficient amount of funds to meet the department’s anticipated encumbrance level during fiscal 2006.	2,000,000	GF	
4. Delete funds supporting the Maryland Economic Adjustment Fund (MEAF). The Department of Legislative Services recommends not funding MEAF in fiscal 2006. Administration of this program is very costly, in excess of \$560,000 annually, and only provides financing to roughly five companies at its	750,000	SF	

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current and proposed appropriation level. Less costly and more efficient methods to administer the program should be explored by the Department of Business and Economic Development. MEAF is specifically designed to provide grants and loans to communities suffering as a result of a decline in defense spending. In 2005, the U.S. Department of Defense is set to go through another round of the Base Realignment and Closure (BRAC 2005) process. It is unlikely that BRAC 2005 recommendations will have an impact on fiscal 2006; however, if base closings do impact fiscal 2006, the department may process a budget amendment to request an appropriation.

- | | | | |
|----|--|-----------|----|
| 5. | Implement the Governor’s proposed reduction for the Maryland Tourism Board. The Administration proposed, as part of its budget submission in conjunction with the Budget Reconciliation Act of 2005, to reduce the general fund appropriation for the Maryland Tourism Board by \$1.0 million. The Department of Legislative Services recommends adopting the action as a recommendation instead of a contingent reduction. | 1,000,000 | GF |
| 6. | Implement the Governor’s proposed reduction for the Maryland State Arts Council. The Administration proposed, as part of its budget submission in conjunction with the Budget Reconciliation Act of 2005, to reduce the general fund appropriation for the Maryland State Arts Council by \$180,000. The Department of Legislative Services recommends adopting the action as a recommendation instead of a contingent reduction. | 180,000 | GF |
| 7. | Reduce the allowance for the Employer Wage Rebate Grant Program. Due to the ongoing structural general fund imbalance in the State budget, funding for the Employer Wage Rebate grant program should be reduced \$4.0 million. The reduction still provides the program with a \$2.0 million appropriation. The \$2.0 million appropriation will allow the department to pilot the program to determine if it has the intended effect of increasing in-state film production activity. | 4,000,000 | GF |

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8. Adopt the following narrative:

Film Production Activity Report: The fiscal 2006 allowance includes an appropriation to establish the Film Production Employer Wage Rebate Grant Program, contingent on enactment of Senate Bill 215/House Bill 253 of 2005. The program would provide film production companies with a 50% rebate of wages paid in the production of any major film or commercial in Maryland, up to a maximum of \$2.0 million per production. The committees request a report detailing the number of qualified projects the State attracts in fiscal 2006 as a result of the wage rebate incentive program as compared to the number of qualified projects in fiscal 2003, 2004 and 2005. The committees request an interim report on December 31, 2005 and a final report on October 1, 2006.

Information Request	Author	Due Date
Interim Report	DBED	December 31, 2005
Final Report		October 1, 2006

	<u>Amount Reduction</u>		<u>Position Reduction</u>
9. Delete two Assistant Secretary positions and associated funding. The Department of Business and Economic Development has three regional offices with one assistant secretary per region. The Department of Legislative Services recommends consolidating the regional reporting to one assistant secretary who has responsibility for all three regional offices.	250,000	GF	2.0
10. Reduce funding for the Partnership for Workforce Quality grants. This reduction provides the same level of funding as fiscal 2005.	250,000	GF	
Total Reductions	\$ 8,623,753		5.0
Total General Fund Reductions	\$ 7,873,753		
Total Special Fund Reductions	\$ 750,000		

Updates

1. Department of Business and Economic Development Reorganization

In December 2003, Secretary Aris Melissaratos announced a departmental reorganization designed to bring a comprehensive regional focus to business development. As a part of the reorganization, staff in DBED's three internal business divisions – Financing, Business Development and Regional Development – have been reassigned to the following three new regional teams:

- The Capital Region serves Montgomery, Prince George's, and Frederick counties. Assistant Secretary William Askinazi heads the division.
- The Baltimore Region, located in Baltimore City, serves Anne Arundel, Baltimore, Carroll, Harford, and Howard counties. Assistant Secretary Robert Hannon heads the division.
- The Rural Maryland Region includes Southern Maryland, the Eastern Shore, and Western Maryland. Assistant Secretary James R. Rzepkowski heads the division.

The goal of the reorganization is to create a regionally focused approach to economic development. The reorganization is designed to allow DBED staff to focus more closely on the industries, issues, and the needs of the three distinct regions of the State, as well as providing a "tighter" pipeline for deal flow. The new focus has also allowed the department greater access into local communities and to be more responsive to the needs of those businesses. The new regional teams give businesses throughout the State a single point of contact that provides information and assistance on financing, workforce training, business development, and other services available from the department.

The department's Technology Strategy and Business Development Unit has focused on marketing the State as a business destination and supporting the State's strategic industry sectors, including advanced technologies, bioscience, FIRE (finance, insurance and real estate), manufacturing, and transportation and distribution.

The Governor's Office of Business Advocacy (GOBA) has been expanded to target greater resources on small and minority businesses. GOBA ensures that all Maryland businesses, particularly small and minority businesses, have the tools they need to grow, create jobs, and bring shared prosperity to communities across the State. The expansion has allowed GOBA to be more responsive and provide greater outreach to minority businesses and help leverage federal funding available for organizations that assist Maryland's small businesses through such programs as the U.S. Small Business Administration and the State's Small Business Development Centers.

2. Preakness Promotional Activities and Economic Development Strategies

Committee narrative included in the 2004 *Joint Chairmen's Report* directed DBED to provide a report detailing the economic development strategy utilized by the department to promote economic development in Maryland, the breakdown of fiscal 2002, 2003, and 2004 actual expenditures related to Preakness promotional activities, and the sources of that funding. A review of the report provides the following information.

Economic Development Strategy

According to DBED, the purpose of the Preakness promotional event is to showcase the State and to informally discuss Maryland's advantages as a location to do business with prospective and existing Maryland companies. To achieve this purpose, DBED's economic development strategy is comprised of the following four objectives:

- to cultivate relationships with key corporate decision-makers and to disseminate information on Maryland's positive business climate;
- to nurture relationships with companies with an interest in Maryland;
- to obtain information on the expansion and growth of invited companies; and
- to illustrate the close working relationship between Maryland State Government, its local jurisdictions, and the private sector.

The 2004 guest list included five Fortune 500 chief executive officers, business executives of companies who were considering expanding or relocating to Maryland, and local business leaders. DBED provided hotel rooms at Harbor Court for some of these executives, as well as several others who represented companies from around the country. According to DBED, the following deals were moved forward as a result of the Preakness event: BioPort Inc. – 350 jobs projected, Tractor Supply Company – 300 to 400 new jobs projected, Volvo Mack Truck & Mercedes-Benz – up to 500 new jobs projected each, and Cambrex – 200 new jobs projected.

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Preakness Expenditures

Exhibit 7 presents the Preakness expenditures from fiscal 1998 through 2004. In 2004, 400 tickets were available, less than in previous years, due to the increase in tent rental expense from \$9,000/tent in 2002 to \$31,500/tent in 2004. Each attendee at the event received admission to the track and the Maryland tent in the Corporate Village. No funds were provided by any non-profit group in 2004 to offset State funding.

Exhibit 7
Department of Business and Economic Development
Preakness Expenditures
Fiscal 1998 – 2004
(\$ in Thousands)

	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>
# of Guests	600	500	809	812	918	700	400
Expenses							
Catering	\$58.2	\$51.7	\$77.6	\$85.0	\$88.8	\$72.4	\$44.0
Tent Rental	81.1	65.1	73.5	83.0	72.0	180.0	126.0**
Decorations	5.1	7.6	5.9	4.8	22.7	11.1	7.0
Harbor Court	0*	2.7	2.2	1.3	1.7	6.7	3.5
Total Expenses	\$144.4	\$127.1	\$159.2	\$174.1	\$185.2	\$270.2	\$180.5

* Harbor Court expenses funded by Greater Baltimore Alliance.

** The Maryland Port Administration also contributed \$60,000 for tent rental.

Source: Department of Business and Economic Development Preakness and Promotional Activities and Economic Development Strategies report, dated July 1, 2004

3. Summary of Major Grants

The fiscal 2006 allowance provides \$17.5 million to support various grants administered by DBED. **Exhibit 8** provides a summary of the major grants.

Exhibit 8
Summary of Major Grants
Department of Business and Economic Development

	<u>Actual Fiscal 2004</u>	<u>Budget Appropriation Fiscal 2005</u>	<u>Budget Allowance Fiscal 2006</u>
Division of Business Development			
Towson University (GIS Support)	\$115,500	\$100,000	\$115,500
Baltimore Symphony Orchestra Overseas Tour	150,000	75,000	75,000
Maryland Israel Development Corporation ⁽¹⁾	176,500	60,000	54,000
World Trade Center Institute		110,799	135,000
Small Business Foreign Trade Grants	64,030	100,000	64,000
Total – Division of Business Development	\$506,030	\$445,799	\$443,500
Division of Small Business Assistance			
SACF – Booth	\$300,000	\$300,000	\$300,000
SBDC/University of Maryland – PTAC		40,000	150,000
Total – Division of Small Business Assistance	\$300,000	\$340,000	\$450,000
Division of Tourism, Film, and the Arts			
Downtown Partnership	\$100,000	\$100,000	\$88,000
BACVA			
Ward Waterfowl Museum			
Capital Region USA, Inc.	300,000	300,000	258,992
Maryland State Arts Council Grants			
Baltimore Symphony Orchestra	1,672,144	1,670,779	
BSO Asia Tour	0	0	
Annapolis Symphony Orchestra	42,096	48,612	
The Walters Art Gallery	849,748	813,098	
The Baltimore Museum of Art	705,645	737,041	
Baltimore Clayworks	54,237	59,706	
Center Stage Associates, Inc.	416,768	453,141	
Baltimore Opera Company, Inc.	514,322	431,513	
Maryland-National Capital Park and Planning	202,360	183,584	
American Visionary Art Museum, Inc.	119,708	33,585	
Olney Theater Center for the Arts	196,235	147,674	
Round House Theater, Inc.	193,861	195,321	
Maryland Hall for the Creative Arts	45,108	57,500	
Strathmore Hall Arts Center	109,451	120,182	
Maryland Symphony Orchestra	62,728	58,051	
The Ward Foundation, Inc.	38,768	37,000	
Jewish Community Center of Washington	67,076	65,000	

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	Actual	Budget	Budget
	Fiscal 2004	Appropriation	Allowance
	Fiscal 2004	Fiscal 2005	Fiscal 2006
Imagination Stage, Inc. (formerly BAPA)	94,880	104,500	
Liz Lerman Dance Exchange	75,985	65,679	
Baltimore's Festival of the Arts, Inc.	56,112	44,000	
Jewish Community Center of Baltimore/Gordon Center	56,409	56,000	
Maryland Historical Society	52,958	44,000	
National Council for the Traditional Arts	41,255	38,000	
The Writer's Center	45,543	43,326	
Young Audiences of Maryland, Inc.	41,215	41,215	
Univ. of MD/Clarice Smith Performance Arts Center at MD	50,000	65,000	
Morgan State University Foundation	80,000		
Nat'l. Chamber Orchestra Society, Inc./Nat'l. Philharmonic	223,526	28,500	
Grants to All Other Arts Organizations	1,776,471	2,324,940	
Subtotal – Grants to Arts Organizations⁽²⁾	\$7,884,609	\$7,966,947	\$7,985,951
Community Arts Development	\$1,846,943	\$1,605,656	\$1,985,204
Artists in Education	619,451	535,510	515,510
Individual Artists and Other Programs	328,009	225,000	325,000
Total – Maryland State Arts Council	\$10,679,012	\$10,333,113	\$10,811,665
Total – Division of Tourism, Film, and the Arts	\$11,079,012	\$10,733,113	\$11,158,657
Division of Regional Development			
Regional Office Grants			
Montgomery County			
Tri-County Council of Western Maryland	\$46,064	\$36,653	\$36,653
College of Southern Maryland	134,627	122,200	122,200
Chesapeake College			
Community College of Baltimore	38,970		
Community Development			
Appalachian Regional Commission	14,329	14,971	14,971
Technical Assistance		30,000	
World Trade Center Institute	291,729	73,200	73,200
Tri-County Council of Western Maryland	115,000	140,000	110,000
Tri-County Council of Southern Maryland	60,000	140,000	110,000
Delmarva Advisory Council			
Mid-Shore Regional Council	110,000	140,000	110,000
Tri-County Council Lower Shore	17,000	140,000	110,000
Greater Baltimore Technology Council	140,000	140,000	110,000
Upper Shore Regional Council	20,000	140,000	110,000
Strategic Plan	40,000		
Technology Council of Maryland ⁽³⁾	241,252	140,000	110,000
Regulatory Research			
Cecil Comm. College – Bainbridge	60,000	60,000	60,000
Econ. Alliance of Greater Baltimore	50,000	50,000	50,000
Univ. of Maryland – MTES	90,000	90,000	90,000
NASDA	15,000		
Maryland Advantage Program		80,000	

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	Actual Fiscal 2004	Budget Appropriation Fiscal 2005	Budget Allowance Fiscal 2006
Military and BRAC Assistance			
Southern Maryland Navy Alliance	25,000	62,500	50,000
Army Alliance	25,000	62,500	50,000
Montgomery County	22,000	16,500	22,000
Fort Meade Alliance	20,000	10,000	20,000
Fort Dietrick Alliance	20,000	15,000	20,000
NDIA/Tech Trends		10,000	15,000
Virginia Commercial Space Flight Authority	150,000		
Town of Indian Head	25,000	25,000	25,000
Military and BRAC Assistance	80,000	100,000	100,000
Workforce Development and Coordination			
GWIB	51,757	23,494	23,494
Maryland Industrial Training Program	1,253,955	2,963,508	2,373,764
Partnership for Workforce Quality	2,150,000	1,387,954	1,637,954
Small Business Development			
University of Maryland – SBDC	35,000		
Strategic Positioning Program (SPP)			
Rural Development Grants (MAERDA) ⁽⁴⁾			
Maryland Rural Health Association	10,000		
Department of Agriculture			
Department of Housing			
Chesapeake Bay Regional Tech Center			
College of Southern Maryland	10,000		
Crisfield Development Corp			
Upper Shore Regional Council	10,000		
Mid Shore Regional Council	10,000		
Southern Maryland RC and D			
Tri-County Council Southern MD			
University of Maryland Eastern Shore			
Total – Division of Regional Development	\$5,381,683	\$6,213,480	\$5,554,236
Total DBED	\$17,266,725	\$17,732,392	\$17,606,393

⁽¹⁾ Additional grant funds for the Maryland-Israel Development Corporation in fiscal 2004 were for supporting the Governor’s International Business Development Mission to Israel.

⁽²⁾ The distribution of Maryland State Arts Council grants to arts organizations for fiscal 2006 is not known at this time.

⁽³⁾ The Technology Council of Maryland received additional grant funding for fiscal 2004 for additional technology development promotional activity.

⁽⁴⁾ The operation of the Maryland Agricultural Education and Rural Development Assistance Fund Act was transferred to the Department of Agriculture effective in fiscal 2004.

Source: Department of Business and Economic Development

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$51,135	\$8,390	\$558	\$398	\$60,481
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-1	790	51	85	925
Cost Containment	-2,369	0	0	0	-2,369
Reversions and Cancellations	0	-266	-28	-13	-307
Actual Expenditures	\$48,765	\$8,914	\$581	\$470	\$58,730
Fiscal 2005					
Legislative Appropriation	\$57,402	\$26,772	\$558	\$398	\$85,130
Budget Amendments	188	0	0	-35	153
Working Appropriation	\$57,590	\$26,772	\$558	\$363	\$85,283

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

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Fiscal 2004

DBED finished fiscal 2004 \$1.8 million below its legislative appropriation. The impact of fiscal 2004 cost containment measures and significant budget amendments are provided below:

- **General Funds:** The department’s total general fund expenditure for fiscal 2004 was reduced through cost containment measures by approximately \$2.4 million.

<u>Description</u>	<u>FY 04 Reduction</u>	<u>PIN Reduction</u>
Reduce funds for the Partnership of Workplace Quality and the Maryland Industrial Training Program in the Division of Regional Development	\$806,332	
Abolish 10 positions	463,105	10
Reduce funds for advertising and the Europe Office contract in the Division of Business Development	214,248	
Reduce funds for advertising and other promotional activities in the Division of Tourism	885,783	
Total	\$2,369,468	

- **Special Funds:** The actual fiscal 2004 special fund expenditure was \$523,693 greater than the legislative appropriation. Significant adjustments include an increase by budget amendment of \$409,343 to cover planning, advertising, promotion, assistance, and development of the tourism industry by the Maryland Tourism Development Board, and an increase of \$380,429 for the Maryland State Art Council’s Artists-in-Education program. The cancellation of \$266,079 reflects expenses less than budgeted in several programs.
- **Reimbursable Funds:** The actual fiscal 2004 reimbursable fund expenditure was \$71,709 greater than the legislative appropriation. Adjustments consisted of an \$85,000 increase via budget amendments and \$13,291 in cancellations. Budget amendment adjustments included a \$40,000 transfer to DBED from the Board of Public Works to re-grant four \$10,000 approved grants from the Maryland Agricultural Education and Rural Assistance Fund, and \$45,000 from the Maryland State Department of Education to DBED to provide services, guidance, and resources for Maryland high schools’ Career Cluster Framework project.

Fiscal 2005

DBED’s fiscal 2005 working appropriation is \$188,136 greater than its legislative appropriation due to the statewide cost-of-living adjustment.

Audit Findings

Audit Period for Last Audit:	October 1, 1997 – September 30, 2000
Issue Date:	August 2001
Number of Findings:	8
Number of Repeat Findings:	3
% of Repeat Findings:	38%
Rating: (if applicable)	n/a

Finding 1: The department did not have an effective mechanism for verifying employment data reported by loan recipients.

Finding 2: The department had not adopted regulations that establish criteria for determining economic disadvantage.

Finding 3: **The department did not adequately monitor, or in some cases did not document its monitoring efforts with respect to the management services contract.**

Finding 4: Grant recipients did not always comply with grant requirements.

Finding 5: Loan insurance and guarantee fees were frequently received late and in some cases were not received at all.

Finding 6: Sufficient controls had not been established over cash receipts.

Finding 7: **Proper internal controls were not established over the processing of purchasing and disbursement transactions.**

Finding 8: **Equipment records were not adequately maintained or reconciled and the results of physical inventories were not fully resolved.**

*Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	299.00	299.00	298.00	-1.00	-0.3%
02 Contractual	36.70	36.10	32.20	-3.90	-10.8%
Total Positions	335.70	335.10	330.20	-4.90	-1.5%
Objects					
01 Salaries and Wages	\$ 21,283,994	\$ 21,654,946	\$ 22,314,167	\$ 659,221	3.0%
02 Technical & Spec Fees	1,358,136	1,420,563	1,317,485	-103,078	-7.3%
03 Communication	742,667	982,703	941,924	-40,779	-4.1%
04 Travel	842,943	935,931	855,848	-80,083	-8.6%
06 Fuel & Utilities	192,994	204,914	244,459	39,545	19.3%
07 Motor Vehicles	323,020	312,751	296,605	-16,146	-5.2%
08 Contractual Services	12,488,441	12,897,257	12,914,392	17,135	0.1%
09 Supplies & Materials	398,702	410,214	349,128	-61,086	-14.9%
10 Equip - Replacement	224,966	5,178	4,354	-824	-15.9%
11 Equip - Additional	23,393	6,000	40,000	34,000	566.7%
12 Grants, Subsidies, and Contributions	19,498,654	18,677,708	24,851,323	6,173,615	33.1%
13 Fixed Charges	1,751,371	1,899,672	1,920,515	20,843	1.1%
14 Land & Structures	13,493,373	25,875,000	22,680,750	-3,194,250	-12.3%
Total Objects	\$ 72,622,654	\$ 85,282,837	\$ 88,730,950	\$ 3,448,113	4.0%
Funds					
01 General Fund	\$ 55,489,242	\$ 57,590,063	\$ 59,687,514	\$ 2,097,451	3.6%
03 Special Fund	16,082,271	26,771,759	28,086,291	1,314,532	4.9%
05 Federal Fund	581,432	558,015	594,145	36,130	6.5%
09 Reimbursable Fund	469,709	363,000	363,000	0	0%
Total Funds	\$ 72,622,654	\$ 85,282,837	\$ 88,730,950	\$ 3,448,113	4.0%

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

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

<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>
0A Department of Business and Economic Development	\$ 3,412,842	\$ 3,476,396	\$ 3,534,750	\$ 58,354	1.7%
0B Division of Administration	3,452,643	3,965,762	4,004,636	38,874	1.0%
0C Division of Economic Policy, Research & Legis.	1,264,562	1,253,719	1,260,634	6,915	0.6%
0D Division of Small Business Assistance	1,380,382	2,094,778	2,214,990	120,212	5.7%
0E Division of Marketing	8,841,551	8,323,125	8,435,469	112,344	1.3%
0F Division of Financial Assistance Programs	18,700,557	30,973,642	28,075,052	-2,898,590	-9.4%
0G Division of Tourism and Promotion	25,825,930	25,078,024	31,627,507	6,549,483	26.1%
0I Division of Regional Development	9,744,187	10,117,391	9,577,912	-539,479	-5.3%
Total Expenditures	\$ 72,622,654	\$ 85,282,837	\$ 88,730,950	\$ 3,448,113	4.0%
General Fund	\$ 55,489,242	\$ 57,590,063	\$ 59,687,514	\$ 2,097,451	3.6%
Special Fund	16,082,271	26,771,759	28,086,291	1,314,532	4.9%
Federal Fund	581,432	558,015	594,145	36,130	6.5%
Total Appropriations	\$ 72,152,945	\$ 84,919,837	\$ 88,367,950	\$ 3,448,113	4.1%
Reimbursable Fund	\$ 469,709	\$ 363,000	\$ 363,000	\$ 0	0%
Total Funds	\$ 72,622,654	\$ 85,282,837	\$ 88,730,950	\$ 3,448,113	4.0%

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

**Fiscal 2006 Cost Containment Actions
As Submitted by the Agency
Estimated Fiscal 2006 Savings
Compared to Fiscal 2005**

<u>Cost Saving Action/Efficiency Measure</u>	<u>Program Code</u>	<u>Total Funds</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Permanent Positions Reduced</u>	<u>Impact of Action</u>
Vehicle replacement funds deleted	Various	\$115,452	\$106,382	\$9,070		Existing vehicles will incur higher mileage and maintenance costs
Office of the Secretary	T00A00.01				1	
Funding Reductions:						
MSBDFFA	T00F00.09	71,250	71,250			Less funding for small business financing support
Investment Financing Group	T00F00.17	3,428,500	3,428,500			Fewer funds for technology sector investments
Maryland Economic Adjustment Fund	T00F00.21	244,500	244,500			Less funding for small business financing support
Assistant Secretary – TFA	T00G00.01	12,283	12,283			Modest reduction in divisional leadership activities funding
Office of Tourism Development	T00G00.02	335,137	335,137			Fewer funds for advertising and promotional activities with tourism partners
Maryland Tourism Board (including proposed budget reconciliation legislation reduction)	T00G00.03	497,549	497,549			Fewer funds for advertising and promotional activities with tourism partners
Maryland Film Office	T00G00.04	118,230	118,230			Reduced funding for film industry promotional activities
Regional Development	T00I00.01	539,479	791,266			Significant reduction (20%) in the Maryland Industrial Training Program (MITP) grant program funding

Note: The reductions in the level of general fund support for the Investment Financing Program and other financing programs will result in fewer investments in fiscal 2006. The reduction in workforce development (i.e., MITP) funding capacity will result in fewer organizations receiving employee training assistance. Similarly, the reduced funding levels for tourism marketing & advertising for fiscal 2006 will require DBED to make adjustments during the marketing and advertising plan development process. DBED believes that the most important objectives and results in these program areas can still be achieved. DBED also hopes to recover the lost general fund support in fiscal 2007 and subsequent years.

Source: Department of Business and Economic Development