

**T00F**

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

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

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<b>PAYGO GF</b>	<b>\$15,000,000</b>	<b>Recommendation:</b>	<b>Disapprove \$15,000,000 General Funds</b>
<b>PAYGO SF</b>	<b>\$20,000,000</b>		

**Program Description:** The Maryland Economic Development Assistance Fund (MEDAF) was established by the General Assembly under Chapter 301, Acts of 1999 as a revolving loan fund. The fund provides below market, fixed rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses. Businesses in particular growth industries that are locating or expanding in priority funding areas are targeted. Funds may be used for property acquisition, construction, or renovation of buildings including tenant improvements and capital equipment.

MEDAF has five funding capabilities:

1. **Significant Strategic Economic Development Opportunities** – These are projects that provide a significant economic development opportunity on a statewide or regional level. An example would be an expansion by a large business.
2. **Local Economic Development Opportunities** – These are projects that provide a valuable economic opportunity to the jurisdiction and are a priority of that jurisdiction. An example would be attracting an out-of-state company to the jurisdiction.
3. **Direct Assistance to Local Jurisdictions or the Maryland Economic Development Corporation (MEDCO)** – This is financial assistance to a local jurisdiction or to MEDCO for local economic development needs. Examples include feasibility studies, local development plan preparation, and infrastructure improvements such as roads and utilities.
4. **Regional or Local Revolving Loan Fund** – This fund provides grants to local jurisdictions to help capitalize their revolving loan funds.
5. **Special Purpose Loans and Grants** – These are specific funding initiatives deemed critical to the State’s economic health and development. An example would be revitalization of brownfields, which are abandoned or underutilized industrial sites that need environmental cleanup.

Chapter 216, Acts of 2004 consolidated the Smart Growth Economic Development Infrastructure Fund (One Maryland) into capability Number 3 of MEDAF. One Maryland currently supports infrastructure and real estate projects in five qualified distressed counties: Allegany, Caroline, Garrett, Somerset, and Baltimore City. Assistance can be used for acquisition, improvements and rehabilitation of land or industrial sites, development of water and sewer lines, shell buildings, and other infrastructure projects.

### **Program Performance Analysis:**

**Jobs Data Available, but Improvements in Performance Reporting Still Underway –** Performance measures for MEDAF include the number of jobs created and retained as a result of the program's activity. The Department of Business and Economic Development (DBED) estimates that a total of 6,941 jobs were created or retained in fiscal 2005 (4,557 jobs created and 2,384 jobs retained) from projects that were approved or closed. This compares with 4,557 estimated jobs created or retained in fiscal 2004 and 7,161 in 2003.

Although DBED provides the General Assembly with performance data about its programs, a legislative audit of fiscal 2003 data showed continued problems regarding the quality of information about job creation and other measures. In some cases, for example, results for past years still referred to estimates rather than actual activity, there was significant double-counting, and project cost data were unsupported.

**Major Steps Taken to Improve Data Collection –** DBED has taken major steps to improve its data collection methods, primarily through installation of a new computer system. The system became fully functional in summer 2005 and is used by all DBED divisions. Previously, each division had its own computer software, which made sharing data among divisions cumbersome and led to coordination problems. The new system addresses these concerns with features including agencywide simultaneous access, ability to attach electronic documents to serve as a history of actions taken; and data validation tools.

**Steps to Improve Data Control Still Forming –** DBED reports that it has an internal working group studying its performance reporting practices. The group has decided to divide up performance measures by division rather than reporting for the agency as a whole. It is not clear whether final responsibility for ensuring accuracy lies with the division directors or with the Managing for Results staff. **The Department of Legislative Services (DLS) recommends that DBED comment on highlights of its data collection improvements and how it plans to improve data quality control.**

**Fiscal 2005 Activity Exceeded 2004 Level:** As a revolving fund, MEDAF revenues from one particular year are not necessarily awarded the next fiscal year; they may carry over several years. Nevertheless, program activity can be compared from year to year.

As shown in **Exhibit 1**, the total number of MEDAF projects and the total project values were higher in fiscal 2005 than in 2004. The fiscal 2005 MEDAF annual report indicates that 48 projects totaling \$15 million were approved (encumbered), and 50 projects totaling \$22.8 million were closed. **Exhibit 2** shows the breakdown by funding capability. Most of the funds were for projects in capabilities 2 and 3.

**Exhibit 1  
MEDAF Project Activity  
Fiscal 2004 – 2005**

	<u>FY 2004</u>	<u>FY 2005</u>
Projects Approved	56	48
Value of Approved Projects	\$18,798,339	\$15,021,417
Projects Closed	33	50
Value of Closed Projects	\$4,985,456	\$22,811,688
<b>Total Projects</b>	<b>89</b>	<b>98</b>
<b>Total Project Value</b>	<b>\$23,783,795</b>	<b>\$37,833,105</b>

Source: Department of Budget and Management capital project worksheets; Maryland Economic Development Assistance Fund Annual Reports

**Exhibit 2  
MEDAF Activity by Funding Capability  
Fiscal 2005  
(\$ in Thousands)**

<u>Capability</u>	<u>Projects Approved</u>		<u>Projects Closed</u>	
1 Significant strategic economic development	2	\$600	0	\$0
2 Local economic development opportunity	13	9,539	15	6,949
3 Direct assistance to local jurisdictions or MEDCO	16	843	26	12,107
3 Direct assistance – One Maryland projects	6	2,985	5	3,385
4 Regional or local revolving loan funds	0	0	0	0
5 Special purposes grant and loans	11	1,054	4	370
<b>Total</b>	<b>48</b>	<b>\$15,021</b>	<b>50</b>	<b>\$22,812</b>

Source: Department of Budget and Management capital project worksheets; Maryland Economic Development Assistance Fund fiscal 2005 Annual Report

In fiscal 2005, one loan of \$1.5 million was charged off, meaning the agency has determined the ability of the recipient to repay is impaired, and \$2.3 million in recoveries were made. This compares with \$703,806 charged off in fiscal 2004.

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**Comments:** The fiscal 2007 allowance provides \$15 million in general funds for MEDAF. In the fiscal 2006 *Capital Improvement Program*, the 2007 allowance was expected to be \$15 million in general obligation (GO) bonds, but improvements in the State’s fiscal condition have enabled use of general funds rather than bonds.

MEDAF special fund spending authority is requested at \$20 million in fiscal 2007. These funds are listed as a PAYGO capital appropriation in the operating budget bill, but the Department of Budget and Management has indicated that the funds are intended to be used as business assistance funds in the operating budget. The fiscal 2007 State Budget Book reflects the funds correctly. The use of special funds in the capital budget creates the requirement that the funds finance capital assets with a useful life of 15 years or more. Shifting the funds to an operating business assistance program eliminates this requirement, giving the agency more flexibility.

The status of the fiscal 2006 MEDAF appropriation remains unclear. The General Assembly approved \$11.8 million in special funds for MEDAF but deleted all of the requested \$14 million in GO bonds. Instead, the General Assembly authorized use of \$9 million from the State Reserve Fund. At this point, the Department of Budget and Management has not released the funds from the Reserve Fund. **DLS recommends that DBED comment on whether the \$9 million from the State Reserve Fund is expected to be transferred.**

***Fund Data***

**Fund History**

	<i>FY 2005 Actual</i>	<i>FY 2006 Estimated</i>	<i>FY 2007 Estimated</i>
Beginning Balance	\$18,434,244	\$30,589,768	\$32,539,241
<b>REVENUE</b>			
General Funds	0	9,000,000*	15,000,000
GO Bonds	12,000,000	0	0
Investment Income	1,039,182	500,000	500,000
Interest Income	2,863,554	3,500,000	3,500,000
Loan Repayments	7,366,756	6,500,000	6,500,000
Loan Recoveries and Grant Repayments	2,314,872	250,000	250,000
Other Income	5,220	5,000	5,000
<b>TOTAL REVENUE</b>	<b>25,589,584</b>	<b>19,755,000</b>	<b>25,755,000</b>
<b>TOTAL AVAILABLE</b>	<b>44,023,828</b>	<b>50,344,768</b>	<b>58,294,241</b>
<b>ENCUMBRANCES</b>			
Encumbrances/Approval Activity – Other	19,216,724	21,000,000	40,000,000
Canceled Encumbrances/Recissions	-7,840,711	-5,850,000	-5,400,000
Operating Expenses	553,254	635,152	855,048
Indirect Expenses	1,520,500	2,020,375	2,072,628
Prior Period Operating/Indirect Adjustment	-15,707	0	0
<b>TOTAL ENCUMBRANCES</b>	<b>13,434,060</b>	<b>17,805,527</b>	<b>37,527,676</b>
<b>Ending Balance</b>	<b>\$30,589,768</b>	<b>\$32,539,241</b>	<b>\$20,766,565</b>

\*\$9 million has been authorized from the State Reserve Fund but has not yet been transferred to the program.

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**(\$ in Millions)**

<i>Description</i>	<i>2005 Approp.</i>	<i>2006 Approp.</i>	<i>2007 Request</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2100 Estimate</i>	<i>2011 Estimate</i>
GO Bonds	\$12.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO GF	0.000	0.000	15.000	15.000	15.000	15.000	15.000
PAYGO SF*	11.750	11.750	20.000	20.000	20.000	20.000	20.000
<b>Total</b>	<b>\$23.750</b>	<b>\$11.750</b>	<b>\$35.000</b>	<b>\$35.000</b>	<b>\$35.000</b>	<b>\$35.000</b>	<b>\$35.000</b>

\*Special fund appropriations beginning in fiscal 2007 are not reflected in the capital budget but in the operating budget.

## *Issues*

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### **1. Special Fund Spending Authority Request Grows in Fiscal 2007 Despite Trend Toward Assistance that Is Not Repaid**

The proportion of the MEDAF portfolio made up of loans has decreased in recent years. As shown in **Exhibit 3**, 28% of the MEDAF portfolio is loans, and 72% is assistance where part or all of the award is not expected to be repaid. Loan repayments are received as special fund income and are used to recapitalize the MEDAF fund balance.

DBED anticipates making \$40 million in encumbrances during fiscal 2007, as compared to an estimated \$21 million in 2006. The agency reports that this significant increase will occur because activity will shift from grants to loans to the extent possible, and loans require higher encumbrance amounts to provide the same value as a grant to an incentive recipient.

**DLS recommends that DBED comment on how the department is managing the program to ensure that there is an appropriate balance between grants and loans. DBED should comment as to whether it would be advisable to limit the amount of grants provided through MEDAF to 25% of total encumbrances. Such a policy would ensure a predictable amount of loan repayments and interest income back to the fund to support future grant and loan activity.**

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#### **Exhibit 3 MEDAF Loan and Grant Ratio Fiscal 2005**

<u>Assistance to Be Repaid</u>	<u>Approved Activity*</u>	<u>% of Total</u>
Loans	\$39,295,779	28.7%
 <u>Part or All of Assistance Not Expected to Be Repaid</u>		
Grants, Conditional Grants, Conditional Loans, and Investments**	97,597,672	71.3%
<b>Total</b>	<b>\$136,893,451</b>	

\*Approved activity since consolidation in fiscal 2001 through January 31, 2006.

\*\*Investments are structured to be long-term, so even though the fund is entitled to some or all of a project's future cash flows from operations, asset appreciation, or other revenue streams, the timing and amount of repayment is uncertain.

Source: Department of Business and Economic Development

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## ***Recommended Actions***

	<b><u>Amount Reduction</u></b>	
1. Delete funds for the Maryland Economic Development Assistance Fund. The agency expects a fund balance at the end of fiscal 2006 that, together with the \$9 million authorized from the State Reserve Fund for fiscal 2006 and other revenues, would accommodate expected encumbrances of \$40 million in fiscal 2007.	\$ 15,000,000	GF
<b>Total General Fund Reductions</b>	<b>\$ 15,000,000</b>	

## ***Fiscal 2007 Proposed Projects***

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DBED expects to approve and encumber \$40 million in projects in fiscal 2007. Should additional projects be approved, the agency could use the available fund balance and the budget amendment process to increase its special fund appropriation.

## ***Fiscal 2006 Project Status***

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<b><u>Project Name</u></b>	<b><u>County</u></b>	<b><u>Form of Assistance</u></b>	<b><u>Amount</u></b>	<b><u>Capability</u></b>
Allegany County, Board of County Comm. American North Branch Industrial Complex	Allegany	Grant	\$500,000	3
American Healthways	Howard	Conditional Loan	200,000	1
Baltimore Lift (Winstead Brothers LLC)	Baltimore City	Grant	6,400	3
Chesapeake Real Estate Group, Inc.	Baltimore City	Grant	10,215	5
Frito Lay	Harford	Conditional Grant	100,000	2
Harford County RLF	Harford	Grant	250,000	4
Inner Harbor West, LLC	Baltimore City	Grant	104,424	5
Garrett County Commissioners/Kaiser Ridge	Garrett	Investment	1,000,000	3
Lowe's Home Centers, Inc.	Washington	Conditional Loan	150,000	2
Machining Technologies	Wicomico	Conditional Loan	250,000	2
Mack Trucks (Phase I)	Washington	Conditional Loan	1,500,000	2
Mack Trucks (Phase II)	Washington	Conditional Loan	500,000	2
Maryland Stadium Authority/Horse Park	Anne Arundel	Grant	37,500	3
MEDCO/Hi-tech Plastics	Dorchester	Loan	739,596	2
MEDCO/Patuxent Business Park Office Building (Hipple Property Spec Bldg.)	Calvert	Investment	2,250,000	3
MEDCO/Patuxent Business Park Office Building (Hipple Property Spec Bldg.)	Calvert	Investment	35,000	3
MEDCO/Military Study Environmental Clean up Feasibility Study	Various	Grant	35,000	3
Mills Corporation	Montgomery	Conditional Grant	1,160,000	2
National Aquarium/City of Baltimore Development Corp./Central Garage	Baltimore City	Grant	49,916	5
Paul Reed Smith Guitars	Queen Anne's	Loan	394,161	2
Queen Anne's County Commissioners	Queen Anne's	Grant	60,000	5
SPS Limited Partnership, BWI Sparrows Point Ship Yard	Baltimore	Grant	150,000	2
Treasurer of Washington County (Volvo Feasibility)	Washington	Grant	21,385	3

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<b><u>Project Name</u></b>	<b><u>County</u></b>	<b><u>Form of Assistance</u></b>	<b><u>Amount</u></b>	<b><u>Capability</u></b>
Tri-County Council for Southern Maryland (Feasibility Study Broadband Infrastructure)	Various	Grant	\$17,425	3
Tri-County Council Lower Eastern Shore (Trade Zone Study)	Various	Grant	29,400	3
United Sports Management LLC	Montgomery	Grant	57,477	5
Worcester County Tyson Strategic Plan	Worcester	Grant	20,000	3
Worcester County – Campbell Soup	Worcester	Grant	200,000	5
<b>Total Disbursements Year to Date</b>			<b>\$9,827,899</b>	

**Committed but Undisbursed Funds – Funding Has Been Approved**

Aerospace Manufacturing, Inc. (Carvel Hall Building)	Somerset	Conditional Loan	\$150,000	2
Americom Government Services	Washington	Grant	10,000	2
American Sugar/Domino Sugar	Baltimore City	Conditional Loan	650,000	2
American Sugar/Domino Sugar	Baltimore City	Grant	225,000	5
BalTerm, LLP	Baltimore City	Grant	273,000	3
Baltimore Development Corp./National Aquarium in Baltimore	Baltimore City	Investment	5,000,000	3
Baltimore Development Corp./Biddle Street	Baltimore City	Grant	300,000	5
Baltimore Development Corp./Clean Energy Center	Baltimore City	Conditional Grant	50,000	3
Baltimore Lift (Winstead Brothers LLC)	Baltimore City	Grant	34,600	3
BDE Development Inc.	Baltimore City	Grant	35,000	5
Bethesda Cultural Alliance/Nederlander	Montgomery	Conditional Grant	375,000	5
Birchmere, Inc.	Montgomery	Conditional Grant	375,000	5
Canton Crossing LLC (Tower)	Baltimore City	Grant	89,902	5
Carroll County Foods	Carroll	Conditional Loan	125,000	3
Cecil County/Strategic Plan	Cecil	Grant	50,000	3
Cellco Partnership	Howard	Conditional Loan	400,000	2
Chesapeake Paperboard	Baltimore City	Grant	250,000	5
City of Aberdeen / APG Airfield Feasibility Study	Harford	Grant	210,000	3
Clipper Redevelopment Company LLC	Baltimore City	Grant	200,000	5
Dreyers Grand Ice Cream Holdings, Inc. (Edy Grand Ice Cream)	Howard/Anne Arundel	Conditional Loan	1,600,000	2
Emanuel Tire	Baltimore City	Grant	38,500	5
Frederick County Board of Commissioners (Maryland Branded Milk Processing)	Frederick County	Grant	10,000	3
FTI Consulting	Baltimore City	Loan	200,000	2
Garrett County Adventure Sports	Garrett	Grant	1,000,000	3

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<u>Project Name</u>	<u>County</u>	<u>Form of Assistance</u>	<u>Amount</u>	<u>Capability</u>
Garrett County American Woodmark	Garrett	Conditional Loan	\$1,750,000	3
Garrett County Performing Arts Center	Garrett	Grant	35,000	3
Garrett County Board of County Commissioners (wood pellet feasibility)	Garrett	Grant	10,250	3
Garrett County Trade/Enterprise Center/Exhibition Hall	Garrett	Grant	300,000	3
General Dynamics	Carroll	Conditional Loan	127,500	2
Glenn L. Martin Maryland Aviation	Baltimore County	Conditional Grant	100,000	3
Home Depot/Your Other Warehouse (Phase II)	Washington	Conditional Loan	300,000	2
Howard County/Strategic Plan	Howard	Conditional Grant	25,000	3
Inner Harbor West, LLC	Baltimore City	Grant	395,576	5
Intelsat/Staubach/Mountainsider Teleport Corp	Washington	Loan	600,000	2
Jos. A Banks	Carroll	Conditional Loan	400,000	2
Maryland Angus Assoc	Baltimore	Grant	45,000	3
Maryland Stadium Authority/Motors Sports	Baltimore City	Grant	50,000	3
MEDCO/Environmental Clean up Feasibility Study BRAC	Various	Grant	2,000	3
MEDCO/Dorchester Technology Park	Dorchester	Loan	1,650,000	3
Mondawmin Mall	Baltimore City	Loan	3,600,000	3
Morgan Stanley (Day Care)	Baltimore City	Loan	1,000,000	2
Nabi BioPharmaceuticals	Montgomery	Conditional Loan	800,000	2
Neighbor Care	Baltimore City	Conditional Loan	250,000	2
Paul Reed Smith Guitars	Queen Anne's	Loan	1,105,839	2
Tri-County Council for the Lower Eastern Shore	Wicomico	Grant	25,000	3
TV One LLC	Montgomery	Grant	75,000	2
World Space	Montgomery	Conditional Loan	200,000	2
<b>Total Committed but Undisbursed Funds – Funding Has Been Approved</b>			<b>\$24,497,167</b>	
<b>Qualified Recipient Pipeline – Signed Agreement from Company, Awaiting Formal Approval</b> (will also include formal request from a local government)			<b>\$5,900,000</b>	

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

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
23 Maryland Economic Development Assistance Fund - Capital Appropriation	\$ 8,131,724	\$ 11,750,000	\$ 35,000,000	\$ 23,250,000	197.9%
<b>Total Expenditures</b>	<b>\$ 8,131,724</b>	<b>\$ 11,750,000</b>	<b>\$ 35,000,000</b>	<b>\$ 23,250,000</b>	<b>197.9%</b>
General Fund	\$ 0	\$ 0	\$ 15,000,000	\$ 15,000,000	N/A
Special Fund	8,131,724	11,750,000	20,000,000	8,250,000	70.2%
<b>Total Appropriations</b>	<b>\$ 8,131,724</b>	<b>\$ 11,750,000</b>	<b>\$ 35,000,000</b>	<b>\$ 23,250,000</b>	<b>197.9%</b>

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.