

T00
Department of Business and Economic Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$57,590	\$55,188	\$74,976	\$19,787	35.9%
Special Fund	17,518	27,315	31,585	4,271	15.6%
Federal Fund	707	593	696	103	17.4%
Reimbursable Fund	<u>438</u>	<u>50</u>	<u>185</u>	<u>135</u>	<u>269.5%</u>
Total Funds	\$76,253	\$83,146	\$107,442	\$24,296	29.2%

- The allowance is \$24.3 million higher than the fiscal 2006 working appropriation. Of this amount, \$20.2 million represents new funds for biotechnology research, film production, arts, tourism, the Enterprise Investment Fund, and the Maryland Economic Adjustment Fund.

Personnel Data

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>
Regular Positions	298.00	292.00	292.00	0.00
Contractual FTEs	<u>36.10</u>	<u>32.20</u>	<u>35.20</u>	<u>3.00</u>
Total Personnel	334.10	324.20	327.20	3.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	11.68	4.00%
Positions Vacant as of 12/31/05	15.00	5.14%

- The allowance includes funds for 3 new contractual employees. The agency has 15 positions vacant as of December 31, 2005, but all except 1 have been vacant for six months or less.

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

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Analysis in Brief

Major Trends

Major Steps Taken to Improve Data Collection; Steps to Improve Data Control Still Forming: Although the Department of Business and Economic Development (DBED) provides the General Assembly with performance data about its programs, two legislative audits have shown problems regarding the quality of information about job creation and other measures. A new computer system is the basis for data collection improvements the agency has made. **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. DLS also recommends that narrative be adopted directing DBED to report to the Office of Legislative Audits on its new data collection and quality control methods.**

Issues

For Preakness 2005, About One-Third of Guests Were Business and International Representatives: In the 2004 *Joint Chairmen's Report*, the General Assembly requested that DBED submit reports on promotional activities related to the Preakness horse race for fiscal 2002 to 2005. **DBED should justify whether the expenses for entertaining guests at the Preakness are cost effective.**

Arts Grants of \$1.8 Million Raise Concern About Potential Ongoing Commitments: The fiscal 2007 allowance includes \$1.8 million in grants to three arts organizations that are experiencing financial challenges. **DLS recommends that budget language be added restricting expenditure of the \$1.8 million in grants in the administrative office of the Division of Tourism, Film, and the Arts until the proposed recipients provide complete plans for addressing their financial challenges and a full listing of grant funds they receive from the State. DLS also recommends that DBED comment on why these funds should be administered outside the customary grant award process.**

Recommended Actions

Funds

1. Add language to restrict nano-biotechnology research funds until a report is submitted.
2. Add language to restrict funds for arts grants made through the tourism and arts administration office until additional information is received.
3. Reduce biotechnology investment tax credit funds. \$ 3,000,000

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4.	Reduce nano-biotechnology research funds.	1,250,000
5.	Reduce Enterprise Investment Funds.	250,000
6.	Reduce Maryland Economic Adjustment Funds.	375,000
7.	Reduce Tourism Board funds.	750,000
8.	Reduce Maryland State Arts Council funds.	2,499,220
9.	Reduce film employer wage rebate funds.	2,000,000
10.	Adopt narrative that requires a report on performance data collection and quality control.	
	Total Reductions	\$ 10,124,220

Updates

Film Production Wage Rebate Program Received \$4 Million in Fiscal 2006 and Supported Three Productions: The 2005 *Joint Chairmen's Report* requested a report on how many productions the State attracted in fiscal 2006 as a result of the wage incentive and how this compares to the number of qualified productions from previous years. The agency reports that three productions were retained or attracted with the \$4 million fiscal 2006 appropriation.

Maryland Fares Well in Base Realignment Decisions: In May 2005, the U.S. Department of Defense announced its latest decisions in the Base Realignment and Closure (BRAC) process. Initial reviews indicate that Maryland can expect a gain of about 9,300 civilian and military personnel.

Major Grants Total \$18.5 Million in Fiscal 2005: DBED awarded a total of \$18.5 million in grants in fiscal 2005. Fiscal 2006 awards are expected to total \$18.4 million, and the 2007 allowance includes funds for \$22.2 million in awards.

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Operating Budget Analysis

Program Description

The mission of the Department of Business and Economic Development (DBED) is to stimulate and strengthen the Maryland economy. DBED develops and implements programs that aim to 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 the competitiveness of businesses in their distinct markets; and (3) 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:*** This division provides leadership and direction to the department and maintains 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:*** This division provides administrative and technical support services for the department.
- ***Division of Business Development:*** This division includes staff who focus on particular industry types, such as biotechnology and manufacturing. 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:*** This division manages various financing programs that promote economic development opportunities. Financing incentives or credit enhancements are provided to commercial and industrial businesses in targeted market segments.
- ***Division of Tourism, Film, and the Arts:*** This 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.

- ***Division of Regional Development:*** This division provides a regional focus for the agency's activities. Staff from the Regional Development division are assigned with staff from the Financing and Business Development divisions to work on projects in the Baltimore, capital, and rural regions. The teams work to promote the competitive position of new and existing businesses, continued federal investment, strategic planning, and improved business climate. Five functions support the division: In-state Business Services; Military Affairs; Community Development; World Class Consortia; and Grants Administration.

Business Assistance Programs

DBED administers four primary business assistance programs in its 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.

DBED still administers loans, grants, conditional loans and grants, and investments through the capital budget in the Maryland Economic Development Assistance Authority Fund. Furthermore, the agency administers several tax incentive programs for the State and draws upon many others as it assembles business financing packages.

- ***Maryland Small Business Development Financing Authority (MSBDF):*** This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Legislation enacted as Chapter 172, Acts of 2001 broadened MSBDF's scope to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria. A private contractor, currently Meridian Management Group, Inc. (MMG), reviews the financing applications for presentation to the MSBDF board. MSBDF has 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):*** This program provides capital through equity purchases for start-up companies that 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):*** This program originally was established to provide loans to new or existing companies in communities suffering dislocation due to defense adjustments. The program has expanded and it often is used as a source of direct lending assistance to small businesses. Recipient companies do not have to show that they have suffered as a result of declining defense spending, only that they reside in an area suffering from defense adjustments.

- ***Economic Development Opportunities Program Fund (Sunny Day):*** This program provides conditional loans and investments 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

Major Steps Taken to Improve Data Collection; Steps to Improve Data Control Still Forming

Although DBED provides the General Assembly with performance data about its programs, two legislative audits have shown problems regarding the quality of information about job creation and other measures. In an audit of 16 Managing for Results (MFR) measures from fiscal 2001, data for 12 of the measures could not be certified and data for 4 measures were inaccurate. In a follow-up audit of 6 measures from fiscal 2003, none of the data could be certified. Problems included significant double-counting, unsupported project cost data, and reporting of actual data that really represented estimates.

New Computer System Is Basis for Data Collection Improvements: 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, led to double-counting, sometimes led to duplication of efforts among those working on business assistance projects, and made it difficult to find out the most current information on a project. The new system addresses these concerns with the following features:

- agencywide simultaneous access;
- records based on cases, rather than business names, to accommodate name changes and use of name aliases;
- a web-based interface for employees working in remote locations;
- ability to attach electronic documents to business case records to serve as a history of actions taken;
- ability for any user to perform ad-hoc queries and produce reports; and
- data validation tools including date stamping, record locking, and tracking of changes.

Furthermore, the new system captures data for easier performance and return-on-investment reporting. All existing employees have been trained on how to use the new system, and additional

training occurs as new employees are hired and as information technology staff devise improvements to the system.

Steps to Improve Data Quality 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. However, it is not clear whether final responsibility for ensuring accuracy lies with the division directors or with the MFR staff. The audit of fiscal 2003 data recommended that DBED develop written departmental MFR policies or procedures and that monitoring occur at the department level to verify the quality control of individual divisions.

Chapter 452, Acts of 2004 requires that agencies submit to the Department of Budget and Management each year MFR information that includes “a description of the internal controls established to ensure reliability of the data collected for each performance measure.”

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. DLS also recommends that narrative be adopted directing DBED to report to the Office of Legislative Auditors on its new data collection and quality control methods.

Governor’s Proposed Budget

The fiscal 2007 allowance for DBED is \$107.4 million, a \$24.3 million (29.2%) increase over the 2006 working appropriation. **Exhibit 1** shows the major changes.

Personnel Expenses Increase Modestly

Expenses for regular personnel increase \$558,277 in the allowance. Of this amount, increases include \$214,597 for employee and retiree health insurance and \$203,352 for the employee retirement system. Decreases include \$173,550 in turnover adjustments, \$101,156 in workers’ compensation adjustments, and \$26,500 for salaries and wages.

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

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2006 Working Appropriation	\$55,188	\$27,315	\$593	\$50	\$83,146
2007 Governor’s Allowance	<u>74,976</u>	<u>31,585</u>	<u>696</u>	<u>185</u>	<u>107,442</u>
Amount Change	\$19,787	\$4,271	\$103	\$135	\$24,296
Percent Change	35.9%	15.6%	17.4%	269.5%	29.2%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$215
Employee retirement system.....	203
Workers' compensation premium assessment	-101
Turnover adjustments	-174
Increments and other compensation	-27
Prior year health insurance underfunding.....	442

Other Changes:

Assistance for Businesses, Biotechnology Research, Arts, and Tourism

Biotechnology investment tax credit	6,000
Maryland Enterprise Investment Fund	4,500
Film production tax credit	4,000
Maryland State Arts Council grants	3,104
Nano-biotechnology research funds for University System of Maryland institutions	2,500
Grants to arts organizations through the Assistant Secretary and Administration Office of the Division of Tourism, Film, and the Arts	1,800
Maryland Tourism Board grants and contractual services	1,500
Division of Regional Development grants	462
Other program and administrative changes	-128

Total **\$24,296**

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

Among Primary Business Assistance Programs, the Enterprise Fund and MEAF Are Set to Increase

The Enterprise Fund is set to receive a \$500,000 increase in the allowance, and MEAF is budgeted to receive \$750,000. **Exhibit 2** shows the details. The Sunny Day Fund shows a decrease to zero in fiscal 2007 because funds for the program are not budgeted but transferred from the State Reserve Fund as projects are approved by the Legislative Policy Committee. Not including the effect of the Sunny Day Fund, the primary business assistance programs receive a \$1.2 million (5.1%) increase in the fiscal 2007 allowance over the 2006 working appropriation.

Exhibit 2 DBED Business Assistance Summary Fiscal 2004 – 2007 (\$ in Thousands)

Program	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Estimated Fiscal 2006</u>	<u>Estimated Fiscal 2007</u>	<u>Change 06-07</u>	<u>% Change 06 – 07</u>
Maryland Small Business						
Development Financing Authority	\$8,183	\$7,325	\$17,931 ¹	\$17,906	-\$25	-0.1%
Maryland Enterprise Investment Fund	5,000	6,729	6,000 ²	6,500	500	8.3%
Maryland Economic Adjustment Fund	710	795	0	750	750	-
Sunny Day Fund	0	2,000	4,690	0	-4,690	-
Total	\$13,893	\$16,848	\$28,621	\$25,156	-\$3,465	-12.1%
Total Not Including Sunny Day	\$13,893	\$14,848	\$23,931	\$25,156	\$1,225	5.1%
Fund Source						
General	\$6,725	\$8,400	\$6,856	\$3,382	-\$3,474	-50.7%
Special	7,168	8,448	21,765	21,774	9	0.0%
Total	\$13,893	\$16,848	\$28,621	\$25,156	-\$3,465	-12.1%
Total Not Including Sunny Day	\$13,893	\$14,848	\$23,931	\$25,156	\$1,225	5.1%

Note: Data are for business assistance amounts only; DBED administrative expenditures related to the programs are not included. DBED also administers business financing through the capital PAYGO budget and several tax incentive programs.

¹Special funds in MSBDFA increased significantly in fiscal 2006 due to the transfer of its capital PAYGO appropriation to the operating budget.

²The fiscal 2007 State Budget Book shows a working appropriation of \$2 million for the Enterprise Fund, but this program received an additional \$4 million from a December 2005 budget amendment.

Source: Maryland State Budget Books, fiscal 2006 and 2007

Initiatives Include New Funds for Biotechnology, Film Production, Arts, and Tourism

Biotechnology: The DBED allowance provides \$6 million for a biotechnology investment tax credit that was established by Chapter 99, Acts of 2005. The legislation did not require or specify a recommended amount to be appropriated to fund the credit. The credit is equal to 50% of an eligible investment made in a qualified biotechnology company, up to \$50,000 a year for individuals and up to \$250,000 a year for corporations and venture capital firms. Importantly, a taxpayer claiming the credit can claim a refund in the amount by which the credit exceeds the tax liability in the year. DBED reports that there is strong interest from the investment community in this tax credit, and it would expect to award all the funds in fiscal 2007 if appropriated.

The allowance also provides \$2.5 million in new general funds to support nano-biotechnology research at University System of Maryland (USM) institutions. Nano-biotechnology is expected to have medical applications in the areas of drug delivery, gene therapy, medical devices, and coatings. Information is not currently available on the anticipated award amount per research project. DBED and USM plan to establish a selection committee to review proposals that would include university, business, and DBED representatives. Three approaches have emerged that could guide awarding of funds:

- provide funds to a single nano-biotechnology center of excellence to coordinate Maryland's research efforts;
- fund proposals that are submitted jointly among USM institutions, which would greatly leverage State funds with research funds from other sources; and/or
- fund individual faculty proposals; since faculty are the gateway to non-State sources of funding, this approach could also greatly leverage funds.

Film Production: The film production employer wage rebate program receives \$8 million in the allowance, which doubles the fiscal 2006 working appropriation of \$4 million. Film production employers can receive a rebate of 50% of the first \$25,000 of each qualified employee's wages, up to a maximum of \$2 million per production.

Arts and Tourism: The allowance for the State Arts Council is \$3.2 million above the fiscal 2006 working appropriation of \$12.1 million. The council's base appropriation is calculated by increasing the current year's appropriation by the rate at which statewide general funds are expected to increase in the allowance year. This formula results in a 2007 appropriation of \$12.7 million, but the budget includes an additional \$2.6 million increase.

Grants to certain arts organizations of \$1.8 million would be awarded through the allowance for the Office of the Assistant Secretary and Administration of the Division of Tourism, Film, and the Arts. These are intended to be one-time grants to help several organizations experiencing financial

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difficulties, including \$1 million for the Baltimore Symphony Orchestra, \$500,000 for the Baltimore Opera, and \$300,000 for the Creative Alliance.

The Maryland Tourism Board receives a \$1.5 million increase in the allowance over its fiscal 2006 working appropriation. Of the increase, \$1 million would go to local tourism development organizations, and \$500,000 would go to advertising placements.

Issues

1. For Preakness 2005, About One-third of Guests Were Business and International Representatives

In the 2004 *Joint Chairmen's Report*, the General Assembly requested that DBED submit reports on promotional activities related to the Preakness horse race for fiscal 2002 to 2005. The agency was asked to include information on its economic development strategy for the event, expenditures, and types of guests.

Generally, DBED's economic development strategy is to capitalize on the Preakness horse race as an international event that promotes the State. The agency aims to use the event to cultivate relationships with corporate decision makers and to promote a positive business climate. Since 1988, the State has set up a tent in the Corporate Village at the Pimlico track to entertain certain attendees. DBED reports that for the 2005 Preakness event, it focused on developing agricultural contacts worldwide. The Maryland Department of Agriculture (MDA) had 31 guests at the event including people from Korea, China, Russia, and the Philippines. DBED reports that 21 high priced horses were purchased by foreign delegation attendees.

Exhibit 3 shows Preakness expenditures from fiscal 1998 to 2005. To offset increased tent rental costs, the agency decided to not send "save the date" cards in 2005. Furthermore, no hotel rooms were used for the 2005 event, and there was no corporate breakfast at the Harbor Court Hotel. Instead, DBED and MDA hosted a continental breakfast at the Hyatt Hotel for guests who rode the shuttle bus to the Pimlico track and back. Three buses from the Maryland Transit Administration were used at no charge to the agencies.

Exhibit 4 shows the composition of guests who attended the 2005 Preakness events. As shown in the exhibit, attendees from businesses and foreign delegations represented about 31% of guests. **DBED should justify whether the expenses for entertaining guests at the Preakness are cost effective.**

Exhibit 3
DBED Preakness Expenditures
Fiscal 1998 – 2005
(\$ in Thousands)

	<u>Fiscal</u> <u>1998</u>	<u>Fiscal</u> <u>1999</u>	<u>Fiscal</u> <u>2000</u>	<u>Fiscal</u> <u>2001</u>	<u>Fiscal</u> <u>2002</u>	<u>Fiscal</u> <u>2003</u>	<u>Fiscal</u> <u>2004</u>	<u>Fiscal</u> <u>2005</u>
Number of Guests	600	500	809	812	918	700	400	387
Expenses								
Catering	\$58.2	\$51.7	\$77.6	\$85.0	\$88.8	\$72.4	\$44.0	\$44.8
Tent Rental	81.1	65.1	73.5	83.0	72.0	180.0	126.0 ²	144.9
Decorations	5.1	7.6	5.9	4.8	22.7	11.1	7.0	3.0
Harbor Court Hotel	0 ¹	2.7	2.2	1.3	1.7	6.7	3.5	0
Hyatt Breakfast Event	0	0	0	0	0	0	0	0.5
Total Expenses	\$144.4	\$127.1	\$159.2	\$174.1	\$185.2	\$270.2	\$180.5	\$193.2 ³

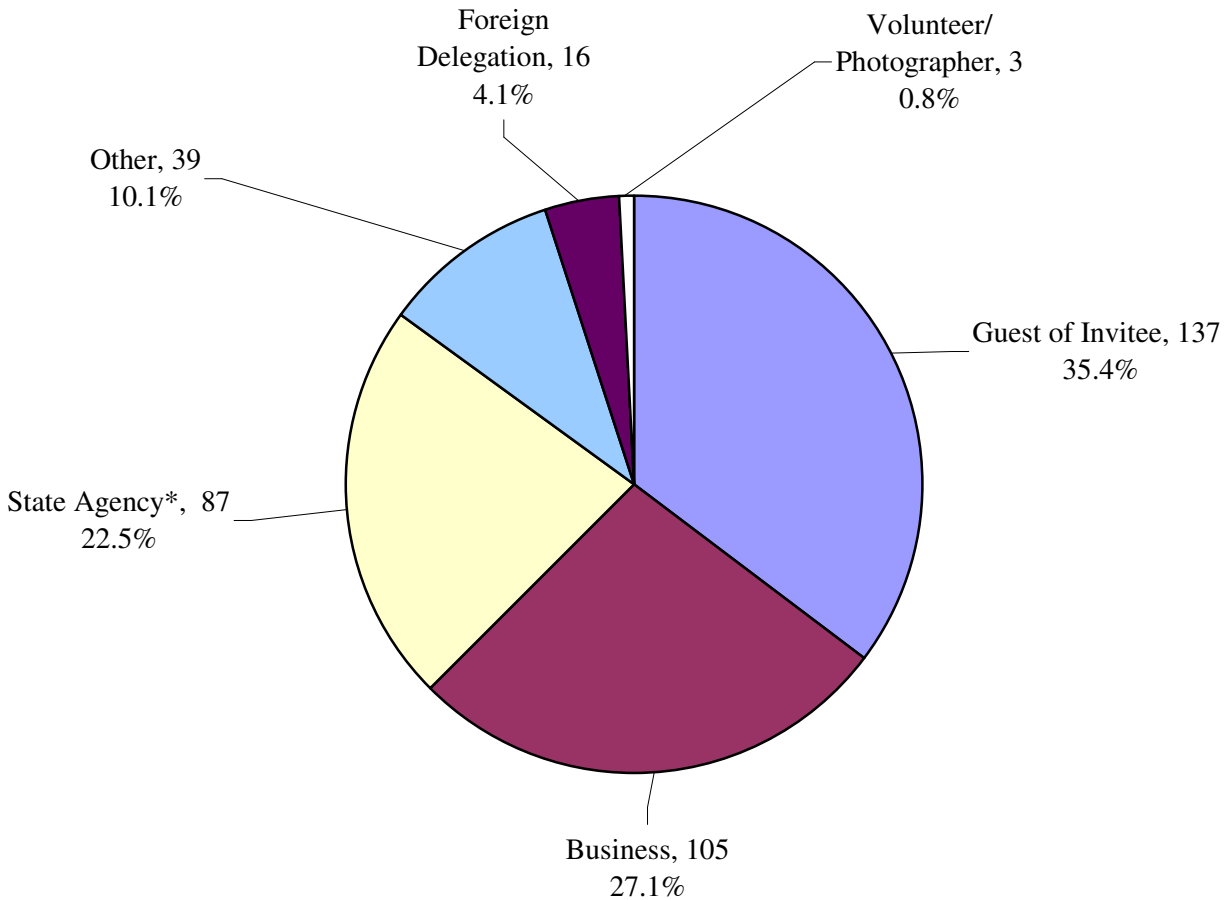
¹ Harbor Court expenses funded by the Greater Baltimore Alliance.

² The Maryland Port Administration also contributed \$60,000 for tent rental.

³ The Maryland Port Administration contributed \$75,000 for food, beverages, and other expenses.

Source: DBED Preakness and Promotional Activities and Economic Development Strategies reports from July 1, 2004 and July 1, 2005

Exhibit 4
Attendees at DBED Preakness Activities
Fiscal 2005



Total Attendees = 387

* Some State agency employees volunteered to run registration tables, manage parking, manage catering, help with media relations, and other activities.

Source: Department of Business and Economic Development

2. Arts Grants of \$1.8 Million Raise Concern About Potential Ongoing Commitments

The fiscal 2007 allowance includes \$1.8 million in grants to three arts organizations through the Office of the Assistant Secretary and Administration of the Division of Tourism, Film, and the Arts. DBED reports that these are intended to be one-time grants to help the organizations with current financial challenges, including \$1 million for the Baltimore Symphony Orchestra (BSO), \$500,000 for the Baltimore Opera Company, and \$300,000 for the Creative Alliance.

Financial Conditions at the Three Organizations

All three organizations have provided information about their financial conditions and steps taken to remedy or improve them. Following is a summary of the information.

- **Baltimore Symphony Orchestra:** The BSO has a budget of \$30 million, and it has identified an accumulated deficit of \$12 million. The BSO reports that it has reduced some operating costs but has focused on introducing new programs which have boosted revenues.
- **Baltimore Opera Company:** The Baltimore Opera Company reduced its expenditures from \$8.4 million to \$6 million but still needs to raise \$4 million during fiscal 2006 and 2007.
- **Creative Alliance:** Finally, the Creative Alliance has a balanced budget (which amounts to \$1 million annually) but reports that it is operating without any reserve funds particularly because of expenses incurred in redeveloping a building in Southeast Baltimore as an arts center. The Creative Alliance reports that it would use the State funds for marketing assessments on how to improve its donor base and increase earned revenues from program admission fees and other activities.

Issues

DLS is concerned about the possibility that these organizations may be experiencing financial challenges that cannot be solved in one year, and that approving the requested funds would involve the State in the organizations' financial challenges without a clear long-term plan.

- **Potential Ongoing State Commitment:** The BSO serves as a historic example. In fiscal 1986, the General Assembly approved a plan to appropriate \$10 million in State grants over six years to the BSO while the organization conducted a major drive to increase its endowment. Given the scale of the deficits at the BSO and the Baltimore Opera and the size of the Creative Alliance request in proportion to its budget, it appears that strategies to improve financial conditions for these groups would need to be addressed over multiple years.
- **Need for Complete Plans Addressing the Challenges:** It is unclear how much of an impact one year of State funding would make on the organizations' financial challenges.

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Specifically, the proposed State funds represent 8% of the BSO deficit and 12.5% of the Baltimore Opera deficit. A complete picture of how the organizations plan to address their financial challenges is needed.

- **Need for Clear Picture of Current State Support:** The State should understand its full level of support for these organizations before authorizing funds for special financial challenges. In the case of BSO, the organization usually receives a grant from the State Arts Council (amounting to \$1.4 million in fiscal 2006), a grant of \$150,000 from DBED's Business Development Division for an overseas tour every other year, and funds from the State Department of Education's aid to educational organizations (amounting to \$45,000 in fiscal 2006). It is possible the BSO receives other State funds as well.
- **Customary Awards Process Not Used:** As a final concern, these grants are budgeted in the division's administrative office rather than as part of the customary grant award process through the State Arts Council.

DLS recommends that budget language be added restricting expenditure of the \$1.8 million in grants in the administrative office of the Division of Tourism, Film, and the Arts until the proposed recipients provide complete plans for addressing their financial challenges and a full listing of grant funds they receive from the State. DLS also recommends that DBED comment on why these funds should be administered outside the customary grant award process.

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that this appropriation may not be expended until the Department of Business and Economic Development submits a report to the budget committees explaining how the nano-biotechnology research funds will be awarded, including estimated award amounts per project and information on composition of the award selection committee. The budget committees shall have 45 days from the date of receipt of the report to review and comment.

Explanation: The fiscal 2007 allowance for the Department of Business and Economic Development (DBED) includes new funds to support nano-biotechnology research at University System of Maryland (USM) institutions. DBED is working with USM to determine how the funds will be awarded and what types of representatives will be included on the award selection committee. DBED anticipates that these decisions will be made in early spring 2006. This language restricts expenditure of the research funds until the General Assembly is notified on how the funds will be spent.

Information Request	Author	Due Date
Report on how nano-biotechnology research funds will be awarded	DBED	45 days prior to expenditure of funds

2. Add the following language to the general fund appropriation:

, provided that \$1,800,000 of this appropriation may not be used for grants to the Baltimore Symphony Orchestra, the Baltimore Opera Company, or the Creative Alliance until those organizations have provided complete plans for addressing their financial challenges and a full listing of grant funds they receive from the State. The budget committees shall have 45 days from the date of receipt of the report to review and comment.

Explanation: The fiscal 2007 allowance includes \$1.8 million in grants to three arts organizations through the Office of the Assistant Secretary and Administration of the Division of Tourism, Film, and the Arts. The Department of Business and Economic Development reports that these are intended to be one-time grants to help the organizations with current financial challenges, including \$1 million for the Baltimore Symphony Orchestra, \$500,000 for the Baltimore Opera Company, and \$300,000 for the Creative Alliance.

The General Assembly is concerned about the possibility that these organizations may be experiencing financial challenges that cannot be solved in one year, and that approving the requested funds without additional information and review would involve the State in the organizations' financial challenges without a clear long-term plan.

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Information Request	Authors	Due Date	
Complete plans for addressing financial challenges and a full listing of grant funds from the State	Baltimore Symphony Orchestra, Baltimore Opera Company, and Creative Alliance	Prior to release of funds	
			<u>Amount Reduction</u>
3. Reduce biotechnology investment tax credit funds. This reduction still would provide half of the proposed increase. The reduction represents a more moderated approach to growth.		\$ 3,000,000	GF
4. Reduce nano-biotechnology research funds. This reduction still would provide half of the proposed increase. The reduction represents a more moderated approach to growth.		1,250,000	GF
5. Reduce Enterprise Investment Funds. This reduction still would provide half of the proposed increase. The reduction represents a more moderated approach to growth.		250,000	SF
6. Reduce Maryland Economic Adjustment Funds. This reduction still would provide half of the proposed increase. The reduction represents a more moderated approach to growth.		375,000	SF
7. Reduce Tourism Board funds. This reduction still would provide half of the proposed increase. The reduction represents a more moderated approach to growth. The agency may distribute the reduction among subprograms within the program.		750,000	GF
8. Reduce Maryland State Arts Council funds. This reduction would bring the fiscal 2007 appropriation amount in line with the increase specified by the program's statutory formula. The agency may distribute the reduction among subprograms of the program.		2,499,220	GF

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9. Reduce film employer wage rebate funds. This reduction still would provide half of the proposed increase. The reduction represents a more moderated approach to growth. 2,000,000 GF
10. Adopt the following narrative:

Performance Data Collection and Quality Control: Although the Department of Business and Economic Development (DBED) provides the General Assembly with performance data about its programs, legislative audits of fiscal 2001 and 2003 data showed problems regarding the quality of information about job creation and other measures. In fact, none of the data from these audits could be certified and some 2001 data were inaccurate. The data are reported as part of the State’s Managing for Results (MFR) efforts.

DBED reports that a new computer system that became functional in summer 2005 will improve its MFR data collection methods. Steps taken to ensure data quality control still are unclear. For example, the agency does not have written MFR policies and procedures, and it is not clear whether final responsibility for ensuring accuracy lies with division directors or with MFR staff.

DBED should submit a report to the Office of Legislative Audits (OLA) by October 1, 2006, detailing its improved MFR data collection methods and any steps taken to improve quality control. OLA should brief the budget committees on whether it appears that past problems are being addressed.

Information Request	Author	Due Date
Report on performance data collection and quality control	DBED	October 1, 2006
Total Reductions		\$ 10,124,220
Total General Fund Reductions		\$ 9,499,220
Total Special Fund Reductions		\$ 625,000

Updates

1. Film Production Wage Rebate Program Received \$4 Million in Fiscal 2006 and Supported Three Productions

The film employer wage rebate program received \$4 million in fiscal 2006. The program provides qualified film productions in the State a 50% rebate on the first \$25,000 of each qualified employee's wages, up to a maximum of \$2 million per production. The 2005 *Joint Chairmen's Report* included a request for a report on how many productions the State attracted in fiscal 2006 as a result of the wage incentive and how this compares to the number of qualified productions from fiscal 2003, 2004, and 2005.

The January 2006 DBED report indicates that three productions received the fiscal 2006 funds. The feature film *Music High* received a \$2 million grant, and the cable television series *The Wire* received a \$2 million grant. *The Wire* has historically filmed in Baltimore, so this production would be considered a retained production rather than a newly attracted one. *The Wire* deferred \$400,000 of its grant to a feature film production called *Rocket Science* since *The Wire* was on hiatus for a time and the *Rocket Science* production agreed to employ crew members from *The Wire* during the hiatus. Final expenditure amounts are not available on these three productions. However, the grant applications for the productions indicate that direct expenditures were estimated at \$32 million over 221 days of filming.

DBED identifies two productions from fiscal 2003 that indicated an interest in filming in Maryland and would have qualified for the wage rebate, two productions that would have qualified in 2004, and seven productions that would have qualified in 2005. DBED has estimated that if the rebate fund totals \$4 million annually over a three-year period, the agency could attract productions with direct expenditures totaling about \$32 million annually during the same time.

2. Maryland Fares Well in Base Realignment Decisions

In May 2005, the U.S. Department of Defense announced its latest decisions in the Base Realignment and Closure (BRAC) process. Initial reviews indicate that Maryland can expect a gain of about 9,300 civilian and military personnel. DBED is scheduled to receive \$800,000 in reimbursable funds from the Department of Labor, Licensing, and Regulation to complete four planning tasks related to the BRAC process and the expected influx of people to Maryland. The tasks involve studying expected jobs and needs for infrastructure, education, and recruitment. Funding for the studies is from the U.S. Department of Labor.

3. Major Grants Total \$18.5 Million in Fiscal 2005

DBED awarded a total of \$18.5 million in grants in fiscal 2005, as shown in **Exhibit 5**. The exhibit also shows that \$18.4 million in awards are expected for fiscal 2006, and the 2007 allowance includes funds for \$22.2 million in awards.

Exhibit 5
Department of Business and Economic Development
Summary of Major Grants

	<u>Actual Fiscal 2005</u>	<u>Budget Appropriation Fiscal 2006</u>	<u>Budget Allowance Fiscal 2007</u>
Division of Business Development			
Towson University (Graphics Support)	\$53,426	\$100,000	\$96,499
Baltimore Symphony Orchestra Overseas Tour	0	150,000	0
MD Israel Development Corp.*	60,000	60,000	100,000
World Trade Center Institute (WTCI) **	184,000	110,799	184,000
Small Business Foreign Trade Grants	100,946	82,201	65,000
Total – Division of Business Development	\$398,372	\$503,000	\$445,499
Division of Small Business Assistance			
Strategic Assistance Consulting Fund – Booth	\$0	\$300,000	\$250,000
Small Business Development Center/University of Maryland – PTAP	150,000	150,000	150,000
Micro-enterprise Council of MD	50,000	0	50,000
Total – Division of Small Business Assistance	\$200,000	\$450,000	\$450,000
Division of Tourism, Film, and the Arts			
Downtown Partnership	\$100,000	\$88,000	\$88,000
Capital Region USA, Inc.	300,000	258,992	258,992
Ocean Race Chesapeake	290,000	0	0
OpSail Baltimore	50,000	0	0
People Pride Foundation	65,000	64,000	0
Baltimore Office of Promo. & Arts (Miss USA)	100,000	0	0
Miss USA Pageant	0	100,000	0
MD Tourism Council	35,000	35,000	35,000
Preakness Celebration Inc.	30,000	30,000	30,000
Pride of Baltimore Inc.	35,000	35,000	35,000
Baltimore Symphony Orchestra	0	0	1,000,000
Baltimore Opera Company	0	0	500,000
Creative Alliance	0	0	300,000
Maryland State Arts Council Grants			
Baltimore Symphony Orchestra	1,670,779	1,432,860	

T00 – Department of Business and Economic Development

	<u>Actual Fiscal 2005</u>	<u>Budget Appropriation Fiscal 2006</u>	<u>Budget Allowance Fiscal 2007</u>
The Walters Art Gallery	813,098	868,464	
The Baltimore Museum of Art	737,041	771,333	
Baltimore Clayworks	59,706	65,631	
Center Stage Associates, Inc.	453,141	462,226	
Baltimore Opera Company, Inc.	431,513	365,795	
Maryland-National Capital Park and Planning	183,584	192,473	
American Visionary Art Museum, Inc.	33,585	123,597	
Olney Theater Center for the Arts	147,674	173,947	
Round House Theater, Inc.	195,321	176,790	
Maryland Hall for the Creative Arts	57,500	65,000	
Strathmore Hall Arts Center	120,182	166,888	
Maryland Symphony Orchestra	58,051	62,642	
Jewish Community Center of Washington	65,000	64,607	
Imagination Stage, Inc. (formerly Bethesda Academy for the Performing Arts)	104,500	234,201	
Liz Lerman Dance Exchange	65,679	75,695	
Baltimore's Festival of the Arts, Inc.	44,000	48,000	
Jewish Community Center of Balto./Gordon Ctr	56,000	57,395	
Maryland Historical Society	44,000	50,000	
University of Maryland/Clarice Smith Perf Arts Ctr at MD	65,000	100,000	
Nat'l Chamber Orch Society, Inc./Nat'l Philharmonic	28,500	35,000	
Everyman Theatre Inc.	59,199	69,555	
Academy Art Museum	45,545	51,298	
Grants to All Other Arts Organizations	2,323,032	2,272,554	
Subtotal – Grants to Arts Organizations ***	\$7,861,630	\$7,985,951	\$11,027,659
Community Arts Development	1,706,987	1,985,204	1,986,333
Artists in Education	680,317	515,510	541,500
Individual Artists and Other Programs	378,054	325,000	360,000
Total – Maryland State Arts Council	\$10,626,988	\$10,811,665	\$13,915,492
Total – Division of Tourism, Film, and the Arts	\$11,631,988	\$11,422,657	\$16,162,484
Division of Regional Development			
Regional Office Grants			
Tri-County Council of Western Maryland	\$56,909	\$36,653	0
College of Southern Maryland	0	122,200	0
Community College of Baltimore	53,706	0	0
Community Development			
Appalachian Regional Commission	15,519	14,971	\$14,971
Technical Assistance Strategic Plan	0	30,000	30,000
World Trade Center Institute (WTICI) **	50,000	73,200	50,000
Tri-County Council of Western Maryland	155,000	140,000	140,000

T00 – Department of Business and Economic Development

	<u>Actual Fiscal 2005</u>	<u>Budget Appropriation Fiscal 2006</u>	<u>Budget Allowance Fiscal 2007</u>
Tri-County Council of Southern Maryland	140,000	140,000	140,000
Mid-Shore Regional Council	140,000	140,000	140,000
Tri-County Council Lower Shore	140,000	140,000	140,000
Greater Baltimore Technology Council	140,000	110,000	140,000
Upper Shore Regional Council	140,000	140,000	140,000
Technology Council of Maryland	140,000	110,000	140,000
Cecil Comm. College – Bainbridge	0	60,000	0
Econ. Alliance of Greater Baltimore	50,000	50,000	50,000
Univ. of Maryland – MTES ****	90,000	210,000	45,000
Maryland Advantage Program	25,000	0	0
Bowie State Incubator	550,000	385,000	0
Military/Federal and BRAC Assistance			
Southern Md. Navy Alliance	85,000	25,000	50,000
Army Alliance	150,000	75,000	75,000
Montgomery County	22,000	22,000	22,000
Fort Meade Alliance	0	20,000	20,000
Fort Dietrick Alliance	20,000	20,000	20,000
Maryland Maritime Alliance	25,000	20,000	20,000
Va. Commercial Space Flight Authority & Maryland Institute for Science and Technology	225,000	50,000	0
Town of Indian Head	25,000	20,000	20,000
Andrews Air Force Base, Business Roundtable of Prince George’s County	0	0	25,000
Army Alliance Statewide BRAC Support	75,000	50,000	50,000
Workforce Development and Coordination			
Governor’s Workforce Investment Board	21,174	23,494	23,494
Maryland Industrial Training Program	2,387,064	2,423,764	2,447,525
Partnership for Workforce Quality	1,337,954	1,387,954	1,237,954
Rural Development Grants (MAERDA) From Agr.			
Maryland Rural Health Association	4,000	0	0
College of Southern Maryland	10,000	0	0
Upper Shore Regional Council	5,000	0	0
University Of Maryland Eastern Shore	12,000	0	0
Total – Division of Regional Development	\$6,290,326	\$6,039,236	\$5,180,944
Total DBED	\$18,520,686	\$18,414,893	\$22,238,927

*Additional grant funds for the MD-Israel Dev. Corp. in fiscal 2007 are for supporting the Governor’s and Lt. Governor’s International Business Development Missions to Israel and related activities.

**The WTCI receives annual grant funding from both Business & Regional Development.

***The distribution of Maryland State Arts Council grants to arts organizations for fiscal 2007 is not known at this time.

****Fiscal 2006 funding for the UM – TES includes the budget supplemental of \$165,000.

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 2005					
Legislative Appropriation	\$57,402	\$26,772	\$558	\$398	\$85,130
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	188	2,530	220	116	3,054
Reversions and Cancellations	0	-11,784	-70	-76	-11,930
Actual Expenditures	\$57,590	\$17,518	\$707	\$438	\$76,254
Fiscal 2006					
Legislative Appropriation	\$54,963	\$27,315	\$593	\$50	\$82,921
Budget Amendments	225	0	0	0	225
Working Appropriation	\$55,188	\$27,315	\$593	\$50	\$83,146

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

Fiscal 2005

DBED finished fiscal 2005 at \$8.9 million below its legislative appropriation.

General funds: General funds increased by \$188,136 through budget amendment for the State employee cost-of-living adjustment.

Special funds: The actual fiscal 2005 special fund expenditure was a net \$9.3 million below the legislative appropriation. During the year, special funds increased by \$2 million through budget amendment from the approval of Sunny Day funds for the University of Maryland Baltimore County.

Special funds also increased by \$331,755, made possible by the Maryland Tourism Development Board's fund balance, to support production of a video. Special funds increased by \$198,255, available as a carryover from fiscal 2004, for the Maryland State Arts Council (MSAC) Artist in Education program. Another \$40,000 in special fund increases was a grant from the Lockheed Martin Corporation for technology enhancement grants.

Special fund cancellations totaled \$11.8 million. MSBDFA's contract finance program accounted for \$10.8 million of the cancellations. This program has lines of credit that turn over the same funds many times in a given year. Historically, the program has needed large appropriations because one or two clients had very high credit lines. These clients did not have active credit lines in fiscal 2005, so the large appropriation was not needed.

Federal funds: The actual fiscal 2005 federal fund expenditure was a net \$149,482 greater than the legislative appropriation. During the year, federal funds increased by \$219,536 through budget amendment. Of this amount, \$194,536 was for MSAC's National Endowment for the Arts (NEA) Partnership Initiative and was available primarily from carryover from fiscal 2003 and 2004. Another \$25,000 was used for the NEA Leadership Initiative and was available from an unanticipated fiscal 2005 grant award. Federal fund cancellations totaled \$70,054.

Reimbursable funds: The actual fiscal 2005 reimbursable fund expenditure was a net \$40,268 greater than the legislative appropriation. During the year, reimbursable funds increased by \$116,270 through budget amendment. Of this amount, \$50,000 was from a Maryland Emergency Management Agency transfer to support travel arrangements for State officials to travel to Israel to discuss homeland security and economic development issues. The Department of Housing and Community Development transferred \$30,000 to support the Folklife program, and the Maryland Department of Agriculture transferred \$36,270 for agricultural education and rural assistance fund grants. Reimbursable fund cancellations totaled \$76,002.

Fiscal 2006

General funds have increased by \$225,055 through budget amendment from the State employee cost-of-living adjustment. The fiscal 2007 State budget book does not reflect it, but DBED increased its special fund appropriation for the Enterprise Investment Fund by \$4 million in December 2005.

Audit Findings

Audit Period for Last Audit:	October 1, 2000 – July 31, 2004
Issue Date:	August 2005
Number of Findings:	8
Number of Repeat Findings:	1
% of Repeat Findings:	0.13%
Rating: (if applicable)	n/a

- Finding 1:** Certain personnel arrangements existed with other agencies or entities generally with neither the execution of formal agreements, identification in the respective budgets, nor disclosure to the legislature.
- Finding 2:** **Employment data reported by loan recipients was not effectively verified.**
- Finding 3:** Use of certain interagency agreements circumvented State procurement regulations, and notice of agreements totaling \$2.5 million was not published as required.
- Finding 4:** Compliance with certain contract performance measures and benchmarks was not adequately verified or documented.
- Finding 5:** The department lacked evidence that certain eligibility criteria relating to one financing transaction was adequately reviewed.
- Finding 6:** Controls over collections and State checks received for distribution were not sufficient.
- Finding 7:** Issuance of purchasing cards was not adequately controlled.
- Finding 8:** Controls and accountability over equipment were not adequate.

*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>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	298.00	292.00	292.00	0	0%
02 Contractual	36.10	32.20	35.20	3.00	9.3%
Total Positions	334.10	324.20	327.20	3.00	0.9%
Objects					
01 Salaries and Wages	\$ 21,378,933	\$ 22,497,297	\$ 23,055,574	\$ 558,277	2.5%
02 Technical & Spec Fees	1,689,568	1,317,485	1,426,150	108,665	8.2%
03 Communication	1,002,259	941,924	906,163	-35,761	-3.8%
04 Travel	1,001,088	855,848	827,390	-28,458	-3.3%
06 Fuel & Utilities	227,923	244,459	254,901	10,442	4.3%
07 Motor Vehicles	292,027	291,396	331,665	40,269	13.8%
08 Contractual Services	11,530,508	11,601,392	11,935,718	334,326	2.9%
09 Supplies & Materials	368,154	349,128	319,750	-29,378	-8.4%
10 Equip - Replacement	205,066	4,354	17,748	13,394	307.6%
11 Equip - Additional	108,335	40,000	60,000	20,000	50.0%
12 Grants, Subsidies, and Contributions	20,327,105	23,151,323	41,019,828	17,868,505	77.2%
13 Fixed Charges	1,869,280	1,920,515	2,130,897	210,382	11.0%
14 Land & Structures	16,253,210	19,930,750	25,155,750	5,225,000	26.2%
Total Objects	\$ 76,253,456	\$ 83,145,871	\$ 107,441,534	\$ 24,295,663	29.2%
Funds					
01 General Fund	\$ 57,590,063	\$ 55,188,288	\$ 74,975,733	\$ 19,787,445	35.9%
03 Special Fund	17,517,628	27,314,801	31,585,320	4,270,519	15.6%
05 Federal Fund	707,497	592,782	695,713	102,931	17.4%
09 Reimbursable Fund	438,268	50,000	184,768	134,768	269.5%
Total Funds	\$ 76,253,456	\$ 83,145,871	\$ 107,441,534	\$ 24,295,663	29.2%

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

Fiscal Summary
Department of Business and Economic Development

<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>
01 Secretariat Services	\$ 2,026,338	\$ 2,118,722	\$ 2,054,994	-\$ 63,728	-3.0%
02 Maryland Economic Development Commission	10,000	5,510	5,510	0	0%
03 Office of the Attorney General	1,293,843	1,427,299	1,414,597	-12,702	-0.9%
01 Office of Administration	3,915,081	4,213,075	4,606,839	393,764	9.3%
01 Div. of Economic Policy, Research, & Legislation	1,227,915	1,271,100	1,277,862	6,762	0.5%
01 Division of Small Business Assistance	1,677,767	1,687,804	1,677,655	-10,149	-0.6%
01 Division of Business Development	8,545,123	8,169,362	8,379,415	210,053	2.6%
02 Maryland Biotechnology Investment Tax Credit Reserve	0	0	6,000,000	6,000,000	
03 Nanotech-biotech Initiative Fund	0	0	2,500,000	2,500,000	
01 Assistant Secretary for Financing Programs	1,231,816	1,444,914	1,546,773	101,859	7.0%
03 Maryland Small Business Development Financing Authority	1,420,045	1,498,605	1,514,614	16,009	1.1%
05 Consolidated Operations	1,819,271	1,939,805	1,845,348	-94,457	-4.9%
08 Maryland Enterprise Investment Fund	750,040	864,820	1,080,800	215,980	25.0%
09 Maryland Small Business Development Financing Authority	7,324,710	17,930,750	17,905,750	-25,000	-0.1%
16 Capital - Sunny Day Clearing Account	2,000,000	0	0	0	0%
17 Investment Finance Group - Capital Appropriation	6,728,500	2,000,000	6,500,000	4,500,000	225.0%
21 Maryland Economic Adjustment Fund - Capital Appropriation	794,500	0	750,000	750,000	
01 Assistant Secretary and Administration	625,469	619,699	2,436,824	1,817,125	293.2%
02 Office of Tourism Development	5,895,363	5,594,953	5,553,920	-41,033	-0.7%
03 Maryland Tourism Board	6,103,912	5,500,000	7,000,000	1,500,000	27.3%
04 Maryland Film Office	955,194	841,132	847,664	6,532	0.8%
05 Maryland State Arts Council	12,004,908	12,112,664	15,279,130	3,166,466	26.1%
06 Film Production Wage Tax Credit	0	4,000,000	8,000,000	4,000,000	100.0%
01 Division of Regional Development	8,565,707	8,517,703	8,025,885	-491,818	-5.8%
03 Partnership for Workforce Quality	1,337,954	1,387,954	1,237,954	-150,000	-10.8%
Total Expenditures	\$ 76,253,456	\$ 83,145,871	\$ 107,441,534	\$ 24,295,663	29.2%
General Fund	\$ 57,590,063	\$ 55,188,288	\$ 74,975,733	\$ 19,787,445	35.9%
Special Fund	17,517,628	27,314,801	31,585,320	4,270,519	15.6%
Federal Fund	707,497	592,782	695,713	102,931	17.4%
Total Appropriations	\$ 75,815,188	\$ 83,095,871	\$ 107,256,766	\$ 24,160,895	29.1%
Reimbursable Fund	\$ 438,268	\$ 50,000	\$ 184,768	\$ 134,768	269.5%
Total Funds	\$ 76,253,456	\$ 83,145,871	\$ 107,441,534	\$ 24,295,663	29.2%

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