

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

***Pay-As-You-Go Capital Budget Summary***

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(\$ in Thousands)

|   | <i>FY 2006<br/>Approp.</i> | <i>FY 2007<br/>Approp.</i> | <i>FY 2008<br/>Allowance</i> | <i>Percent<br/>Change</i> | <i>DLS<br/>Recommd.</i> |
|---|----------------------------|----------------------------|------------------------------|---------------------------|-------------------------|
| Maryland Economic Development Assistance Fund | \$11,750                   | \$35,000                   | \$22,000                     | -37.1%                    | \$18,000                |
| Rural Broadband Assistance Fund               | 0                          | 0                          | 2,000                        | n/a                       | 2,000                   |
| <b>Total</b>                                  | <b>\$11,750</b>            | <b>\$35,000</b>            | <b>\$24,000</b>              | <b>-31.4%</b>             | <b>\$20,000</b>         |

| <b>Fund Source</b>    |                 |                 |                 |               |                 |
|-----------------------|-----------------|-----------------|-----------------|---------------|-----------------|
| General               | \$0             | \$15,000        | \$4,000         | -73.3%        | \$0             |
| Special               | 11,750          | 20,000          | 20,000          | 0%            | 20,000          |
| <b>PAYGO Subtotal</b> | <b>\$11,750</b> | <b>\$35,000</b> | <b>\$24,000</b> | <b>-31.4%</b> | <b>\$20,000</b> |
| GO Bonds              | 0               | 0               | 0               | n/a           | 0               |
| <b>Total</b>          | <b>\$11,750</b> | <b>\$35,000</b> | <b>\$24,000</b> | <b>-31.4%</b> | <b>\$20,000</b> |

***Summary of Issues***

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***Maryland Economic Development Assistance Fund – Additional Project Activity May Be Funded with Fund Balance:*** The Department of Business and Economic Development (DBED) has reported in the past that it needs additional general funds in order to increase the number of projects supported by the Maryland Economic Development Assistance Fund. However, in three of the last four fiscal years, the program has not used its full legislative appropriation. **The Department of Legislative Services recommends that DBED comment on future plans to request general funds.**

## ***Summary of Recommended Actions***

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|   | <b><u>Funds</u></b> |
|---|---------------------|
| 1. Add language to transfer special funds to the rural broadband program. |                     |
| 2. Delete Maryland Economic Development Assistance general funds.         | \$ 2,000,000        |
| 3. Delete Rural Broadband Assistance general funds.                       | 2,000,000           |
| <b>Total Reductions</b>   | <b>\$ 4,000,000</b> |

## Maryland Economic Development Assistance Fund (Statewide)

|          |              |                        |   |
|----------|--------------|------------------------|---|
| PAYGO GF | \$2,000,000  | <b>Recommendation:</b> | <b>Delete general funds. Add language requiring the transfer of \$4 million in special funds to the Rural Broadband fund.</b> |
| PAYGO SF | \$20,000,000 |                        |   |

**Program Description:** The Maryland Economic Development Assistance Fund (MEDAF) was established by the General Assembly under Chapter 301 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 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 six qualified distressed counties: Allegany, Caroline, Garrett, Somerset, Worcester, and Baltimore City. Assistance may 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 – Fiscal 2006 Activity Approximates 2005 Level:** As a revolving fund, MEDAF revenues from a particular year are not necessarily awarded the next fiscal year; they may carry over several years. Nevertheless, program activity may be compared from year to year.

As shown in **Exhibit 1**, the total number of MEDAF projects and the total project values were slightly lower in fiscal 2006 than in 2005. The fiscal 2006 MEDAF annual report indicates that 51 projects totaling \$20.2 million were approved (encumbered), and 41 projects totaling \$16.1 million were closed. **Exhibit 2** shows the breakdown by funding capability. Most of the funds were for projects in capabilities 2 and 3.

In fiscal 2006, three loans totaling \$6.5 million were charged off, and \$10.3 million in recoveries were made. This compares with \$1.5 million charged off, and \$2.3 million recovered in fiscal 2005. Charge offs mean that the agency has determined that the ability of the recipient to repay is impaired. Charge offs are initiated when payment is 180 days past due unless there is a strong potential to collect the funds. The timeframe for collecting troubled accounts cannot be specified and in some cases may involve a lengthy legal process.

**Comments:** The fiscal 2008 allowance provides \$2 million in general funds and \$20 million in special funds for MEDAF. The 2006 *Capital Improvement Program* included \$15 million in general funds and \$20 million in special funds.

The special funds are not listed as a PAYGO capital appropriation because the Department of Budget and Management says the funds are intended to be used as business assistance in the operating budget. 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, enabling the funding to be used for purposes permitted under statute that involve assets with a useful life of 15 or fewer years.

**Exhibit 1  
MEDAF Project Activity  
Fiscal 2005-2006**

|                            | <u>2005</u>         | <u>2006</u>         |
|----------------------------|---------------------|---------------------|
| Projects Approved          | 48                  | 51                  |
| Value of Approved Projects | \$15,021,417        | \$20,156,000        |
| Projects Closed            | 50                  | 41                  |
| Value of Closed Projects   | \$22,811,688        | \$16,080,358        |
| <b>Total Projects</b>      | <b>98</b>           | <b>92</b>           |
| <b>Total Project Value</b> | <b>\$37,833,105</b> | <b>\$36,236,358</b> |

Source: Department of Business and Economic Development; Maryland Economic Development Assistance Fund annual reports

**Exhibit 2  
MEDAF Fiscal 2006 Activity by Funding Capability  
(\$ in Thousands)**

| <u>Capability</u> |   | <u>Projects<br/>Approved</u> |                 | <u>Projects<br/>Closed</u> |                 |
|-------------------|---|------------------------------|-----------------|----------------------------|-----------------|
| 1                 | Significant strategic economic development        | 1                            | \$150           | 2                          | \$2,000         |
| 2                 | Local economic development opportunity            | 15                           | 9,911           | 11                         | 6,360           |
| 3                 | Direct assistance to local jurisdictions or MEDCO | 20                           | 2,832           | 16                         | 3,632           |
| 3                 | Direct assistance – One Maryland projects         | 2                            | 3,500           | 3                          | 2,500           |
| 4                 | Regional or local revolving loan funds            | 1                            | 250             | 1                          | 250             |
| 5                 | Special purposes grant and loans                  | <u>12</u>                    | <u>3,514</u>    | <u>8</u>                   | <u>1,338</u>    |
|                   | <b>Total</b>                                      | <b>51</b>                    | <b>\$20,156</b> | <b>41</b>                  | <b>\$16,080</b> |

Source: Department of Business and Economic Development; Maryland Economic Development Assistance Fund fiscal 2006 annual reports

## ***Fund Data***

### **Fund History**

|  | <i>FY 2006 Actual</i> | <i>FY 2007 Estimated</i> | <i>FY 2008 Estimated</i> |
|--|-----------------------|--------------------------|--------------------------|
| Beginning Balance                          | \$30,589,769          | \$48,871,835             | \$31,307,689             |
| <b>REVENUE</b>                             |                       |                          |                          |
| General Funds                              | 0                     | 6,345,167                | 2,000,000                |
| Transfer from (to) Other Funds             | 9,000,000             | -2,000,000               | -2,000,000               |
| Interest Income                            | 2,061,212             | 1,500,000                | 1,000,000                |
| Loan Repayments                            | 2,408,022             | 2,500,000                | 3,000,000                |
| Loan Recoveries and Grant Repayments       | 10,344,717            | 500,000                  | 500,000                  |
| Cancelled Prior Year Encumbrances          | 1,845,744             | 0                        | 0                        |
| Other Income                               | 36,592                | 10,000                   | 10,000                   |
| <b>TOTAL REVENUE</b>                       | <b>\$38,030,389</b>   | <b>\$15,355,167</b>      | <b>\$11,310,000</b>      |
| <b>TOTAL AVAILABLE</b>                     | <b>\$68,620,158</b>   | <b>\$64,227,002</b>      | <b>\$42,617,689</b>      |
| <b>ENCUMBRANCES</b>                        |                       |                          |                          |
| Encumbrances/Approval Activity             | \$17,239,946          | \$35,000,000*            | \$25,000,000             |
| Rescissions of New Approvals               | 0                     | -5,000,000               | -5,000,000               |
| Operating Expenses                         | 632,324               | 859,015                  | 866,384                  |
| Indirect Expenses                          | 1,902,655             | 2,060,298                | 1,986,026                |
| Prior Period Operating/Indirect Adjustment | -26,602               | 0                        | 0                        |
| <b>TOTAL ENCUMBRANCES</b>                  | <b>\$19,748,323</b>   | <b>\$32,919,313</b>      | <b>\$22,852,410</b>      |
| <b>Ending Balance</b>                      | <b>\$48,871,835</b>   | <b>\$31,307,689</b>      | <b>\$19,765,279</b>      |

\*Funds encumbered as of January 31, 2007, total \$10,946,786.

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

**(\$ in Millions)**

| <i>Description</i> | <i>2006<br/>Approp.</i> | <i>2007<br/>Approp.</i> | <i>2008<br/>Request</i> | <i>2009<br/>Estimate</i> | <i>2010<br/>Estimate</i> | <i>2011<br/>Estimate</i> | <i>2012<br/>Estimate</i> |
|--------------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| PAYGO GF           | \$0.000                 | \$15.000**              | \$2.000                 | \$15.000                 | \$15.000                 | \$15.000                 | \$15.000                 |
| PAYGO SF *         | \$11.750                | \$20.000                | \$20.000                | \$20.000                 | \$20.000                 | \$20.000                 | \$20.000                 |
| <b>Total</b>       | <b>\$11.750</b>         | <b>\$20.000</b>         | <b>\$22.000</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.

\*\* In fiscal 2007, MEDAF received \$15 million in general funds; however, earmarks totaling \$8,654,833 and a \$2 million transfer to a DBED rural broadband program reduced funds available for MEDAF projects.

## Issues

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### 1. Additional Project Activity May Be Funded with Fund Balance

DBED has reported in the past that it needs additional general funds in order for MEDAF project activity to increase. However, as shown in **Exhibit 3**, in three of the last four fiscal years, the program has not used its full legislative appropriation. Expenditures came in an average of \$4.4 million below appropriations in fiscal 2003 to 2005. Fiscal 2006 presented a different picture, with expenditures exceeding appropriations by \$6.5 million.

Appropriations represent new funds available for projects and include general funds, proceeds from general obligation bonds, and anticipated special funds from loan repayments and interest income, among other sources. If the program is carrying a fund balance, this also represents funds available for projects.

The fiscal 2008 allowance includes only \$2 million in general funds for MEDAF, and this amount would be transferred to a new program for rural broadband infrastructure. MEDAF projects are expected to be supported with special fund income and use of fund balance. The fund balance is expected to be about \$31 million at the end of fiscal 2007. Still, the *Capital Improvement Program* calls for \$15 million in general funds each year for MEDAF in out years. **The Department of Legislative Services recommends that DBED comment on future plans to request general funds.**

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**Exhibit 3**  
**MEDAF Legislative Appropriations vs. Actual Expenditures**  
**Fiscal 2003-2006**  
**(\$ in Thousands)**

|                                | <u>Amount</u> | <u>Amount Change</u> | <u>% Change Approp. to Actual</u> |
|--------------------------------|---------------|----------------------|-----------------------------------|
| 2003 Legislative Appropriation | \$32,000      |                      |                                   |
| 2003 Actual Expenditures       | 27,208        | -\$4,792             | -15.0%                            |
| 2004 Legislative Appropriation | 25,500        |                      |                                   |
| 2004 Actual Expenditures       | 20,632        | -4,868               | -19.1%                            |
| 2005 Legislative Appropriation | 11,750        |                      |                                   |
| 2005 Actual Expenditures       | 8,132         | -3,618               | -30.8%                            |
| 2006 Legislative Appropriation | 11,750        |                      |                                   |
| 2006 Actual Expenditures       | 18,240        | 6,490                | 55.2%                             |

Source: Governor's Budget Books, Fiscal 2003-2007

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## ***Recommended Actions***

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

. provided that \$4,000,000 of this appropriation shall be transferred to the Rural Broadband Assistance Fund within the Department of Business and Economic Development.

**Explanation:** The Maryland Economic Development Assistance Fund (MEDAF) fiscal 2008 allowance includes \$2 million in general funds to be transferred to the Rural Broadband Assistance Fund. The rural broadband fund also has \$2 million in general funds in the allowance. The Department of Legislative Services recommends deleting both general fund appropriations and replacing them with a transfer of \$4 million in special funds from MEDAF.

|  | <b><u>Amount<br/>Reduction</u></b> |    |
|--|------------------------------------|----|
| 2. Delete Rural Broadband Assistance general funds.<br>The funds can be replaced by special funds from the<br>Maryland Economic Development Assistance Fund. | 2,000,000                          | GF |
| <b>Total General Fund Reductions</b>   | <b>\$ 2,000,000</b>                |    |

## ***Fiscal 2008 Proposed Projects***

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DBED expects to encumber \$22.9 million to support fiscal 2008 projects. Should additional project opportunities arise and should the fund balance be adequate, the agency may use the budget amendment process to increase its special fund appropriation to finance more projects.

## ***Fiscal 2007 Project Status***

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| <b><u>County</u></b>  | <b><u>Incentive Amount</u></b> |
|---|--------------------------------|
| <b>Disbursements Year to Date</b>                               |                                |
| Anne Arundel Total  | \$21,250                       |
| Baltimore City Total  | 556,150                        |
| Frederick Total   | 210,000                        |
| Garrett Total   | 100,000                        |
| Howard Total  | 400,000                        |
| Montgomery Total  | 275,000                        |
| Worcester Total   | 250,000                        |
| <b>Total Disbursements Year to Date</b>                         | <b>\$1,812,400</b>             |
| <b>Balance for Fiscal 2007</b>                                  | <b>\$87,652,051</b>            |
| <b>Committed but Undisbursed Funds – Funding Approved</b>       |                                |
| Allegany Total  | \$2,520,000                    |
| Anne Arundel Total  | 540,000                        |
| Baltimore City Total  | 11,649,056                     |
| Baltimore Total   | 5,975,000                      |
| Calvert Total   | 25,000                         |
| Carroll Total   | 252,500                        |
| Cecil Total   | 3,100,000                      |
| Dorchester Total  | 1,650,000                      |
| Frederick Total   | 1,057,036                      |
| Garrett Total   | 2,285,000                      |
| Harford Total   | 610,000                        |
| Howard Total  | 300,000                        |
| Montgomery Total  | 1,275,000                      |
| Queen Anne’s Total  | 1,105,839                      |
| Somerset Total  | 650,000                        |
| Various Total   | 4,000,000                      |
| Washington Total  | 752,000                        |
| <b>Total Committed but Undisbursed Funds – Funding Approved</b> | <b>\$37,746,431</b>            |
| <b>Balance for Fiscal 2007</b>                                  | <b>\$49,905,620</b>            |

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

| <u>County</u>  | <u>Incentive Amount</u> |
|--|-------------------------|
| <b>Qualified Recipient Pipeline – signed agreement from company, awaiting formal approval<br/>(will also include formal request from a local government)</b> |                         |
| Allegany Total   | \$2,500,000             |
| Caroline Total   | 3,000,000               |
| Charles Total  | 2,000,000               |
| Howard Total   | \$3,300,000             |
| Somerset Total   | 2,000,000               |
| <b>Total Qualified Recipient Pipeline</b>  | <b>\$12,800,000</b>     |
| <b>Balance for Fiscal 2007</b>   | <b>\$37,105,620</b>     |
| <b>Prospect Pipeline – proposal letter sent but not accepted</b>   |                         |
| Allegany Total   | \$1,200,000             |
| Charles Total  | 150,000                 |
| Frederick Total  | 50,000                  |
| Prince George’s Total  | 200,000                 |
| Washington Total   | 220,000                 |
| <b>Total Prospect Pipeline</b>   | <b>\$1,820,000</b>      |
| <b>Balance for Fiscal 2007</b>   | <b>\$35,285,620</b>     |
| <b>Projects in Discussions</b>   |                         |
| Anne Arundel Total   | \$2,300,000             |
| Baltimore City Total   | 8,525,000               |
| Baltimore Total  | 2,500,000               |
| Cecil Total  | 2,000,000               |
| Charles Total  | 2,500,000               |
| Dorchester Total   | 1,300,000               |
| Garrett Total  | 1,700,000               |
| Harford Total  | 2,070,000               |
| Montgomery Total   | 1,575,000               |
| Prince George’s Total  | 540,000                 |
| Somerset Total   | 1,000,000               |
| Various Total  | 2,000,000               |
| Washington Total   | 2,250,000               |
| Wicomico Total   | 1,950,000               |
| <b>Total Projects in Discussions</b>   | <b>\$32,210,000</b>     |
| <b>Balance for Fiscal 2007</b>   | <b>\$3,075,620</b>      |

Source: Department of Business and Economic Development

## ***Rural Broadband Assistance Fund (Statewide)***

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|                 |                    |                        |   |
|-----------------|--------------------|------------------------|---|
| <b>PAYGO GF</b> | <b>\$2,000,000</b> | <b>Recommendation:</b> | <b>Delete general funds. Add language requiring the transfer of \$4 million in special funds to the Rural Broadband fund.</b> |
|-----------------|--------------------|------------------------|---|

**Program Description:** Chapter 269 of 2006 requires the Department of Business and Economic Development (DBED) to establish a fund for broadband communications infrastructure in rural and underserved areas of the State. The legislation mandates that at least \$4 million be appropriated to the fund in fiscal 2008 as well as 2009. The legislation further specifies that the fund should be part of the DBED capital program and at least \$2 million of the annual funds should be from the Maryland Economic Development Assistance Fund budget (MEDAF).

The funds can be used for planning, construction, and maintenance of broadband communication services and equipment. The fiscal 2008 allowance would be used for fiber optic cable on the Eastern Shore. The State has a high speed backbone network on the Eastern Shore that uses microwave links, as specified in the original network Maryland plan. However, this backbone is expected to reach full capacity by 2010. To address the need for additional capacity, a Rural Broadband Cooperative was formed, and this entity is authorized to expend from the rural broadband fund. The new infrastructure will be available to private sector, federal, State, and local government organizations.

The rural broadband projects will be completed in three phases. The first phase will link Wallops Island, Virginia to Salisbury; Elkton to the I-95 corridor; and Patuxent River Naval Air Station to the Chesapeake Bay Bridge. It will also run cable across the Bay Bridge. Phase II will link Salisbury to the Bay Bridge and will run spurs to Easton and Denton. A link will be provided to Elkton to provide redundancy in the event the Bay Bridge cable goes out. Phase III will link Baltimore to communities in Western Maryland.

**Comments:** Phase I has received \$2 million from MEDAF and a \$1.84 million grant from the National Aeronautics and Space Administration in fiscal 2007. Phases II and III will be supported by fiscal 2008 and 2009 State funds. DBED does not have available a total estimated cost for the broadband projects at this time. The agency anticipates that additional federal funds may be secured.

## ***Fund Data***

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(\$ in Millions)

| <i>Description</i> | <i>2006<br/>Approp.</i> | <i>2007<br/>Approp.</i> | <i>2008<br/>Request</i> | <i>2009<br/>Estimate</i> | <i>2010<br/>Estimate</i> | <i>2011<br/>Estimate</i> | <i>2012<br/>Estimate</i> |
|--------------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| PAYGO GF           | \$0.000                 | \$2.000*                | \$2.000                 | \$2.000                  | \$0.000                  | \$0.000                  | \$0.000                  |
| <b>Total</b>       | <b>\$0.000</b>          | <b>\$2.000</b>          | <b>\$2.000</b>          | <b>\$2.000</b>           | <b>\$0.000</b>           | <b>\$0.000</b>           | <b>\$0.000</b>           |

\* Fiscal 2007 funds were transferred from MEDAF.

## ***Recommended Actions***

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|   | <b><u>Amount<br/>Reduction</u></b> |    |
|---|------------------------------------|----|
| 1. Delete Maryland Economic Development Assistance general funds. These funds would be transferred to the rural broadband program but may be replaced by special funds. | \$ 2,000,000                       | GF |
| <b>Total General Fund Reductions</b>  | <b>\$ 2,000,000</b>                |    |