



Lawrence J. Hogan Jr.
Governor
Boyd K. Rutherford
Lt. Governor
R. Michael Gill
Acting Secretary
Benjamin H. Wu
Deputy Secretary

TESTIMONY OF

R. MICHAEL GILL, ACTING SECRETARY

on the

FY 2016 DBED ALLOWANCE

before the

HOUSE APPROPRIATIONS

SUBCOMMITTEE ON EDUCATION & ECONOMIC DEVELOPMENT

Thursday, February 26, 2015

I. Introduction

Good afternoon Chairman Jones and members of the Committee. Thank you for the opportunity to appear before you today in support of the FY 2016 budget allowance for the Department of Business and Economic Development (DBED). This budget reflects the administration's commitment to spurring growth in biotechnology, cybersecurity and other core, high-growth Maryland industries; supporting innovators, entrepreneurs and small business owners across Maryland; maintaining an active suite of financial assistance programs to incentivize private sector capital investment; and investing in Maryland's vibrant heritage, culture, tourist destinations, artists and arts organizations.

The proposed allowance of \$143.7 million is an 18.8 percent decrease from FY 2015. While the proposed general fund allowance is in line with FY 2015, the primary cause of the decline is a reduction in special funds. The largest source of special fund reduction is InvestMaryland. The Maryland Venture Fund (MVF) received the last tranche of InvestMaryland funding in FY 2015 and thereby includes in its proposed FY 2016 allowance \$15 million less in special funds. Other one-time decreases include a reduction of \$2.3 million in general funds for the Maryland Tourism Development Board that is principally related to the end of the State's War of 1812 commemoration.

DBED is Maryland's principal economic development agency. It is our charge to stimulate growth in Maryland's economy and of Maryland jobs by serving as a catalyst for investment and innovation across the State. Through our own in-house research and business development team and with the guidance of our slate of boards and commissions staffed by business leaders, educators, and others, we identify opportunities to leverage Maryland's tremendous assets, ply our competitive advantages, and build a stronger, better State. We work

with a vast network of partners, including local economic development offices, nonprofits, colleges and universities, workforce development agencies, and Maryland businesses large and small.

Before proceeding with our testimony, I want to acknowledge Jody Sprinkle and the staff of the Department of Legislative Services (DLS) for their thorough and professional review of DBED operations and the FY 2016 budget allowance.

II. Budget Priorities

Continued Support of MEDAAF

The Maryland Economic Development Assistance Authority and Fund (MEDAAF) is DBED's workhorse financial incentive program. It plays a central role in facilitating major business expansions and relocations in the State and is a key component in Maryland's ability to compete with its neighbors for new projects. As the economy continues to improve and businesses invest in more capital projects it is critical to support MEDAAF with an infusion of general funds. In September, DBED and Sephora announced \$1.1 million in State assistance, including MEDAAF funding, to support the rapid expansion of the cosmetics firm in Harford County. Instead of moving to Kentucky, Sephora is adding 200 new jobs at its new \$31 million distribution center. In Frederick, \$3 million in MEDAAF funding was used to assist MedImmune's \$850 million expansion — retaining 2,500 jobs and creating 650 more.

Leverage growth in life sciences and cybersecurity

The life sciences and cybersecurity sectors are pillars of Maryland's dynamic, competitive, and highly innovative high-tech economy. Anchored by unparalleled research assets, including Johns Hopkins University, the University of Maryland, and the National Institutes of Health, and cutting-edge federal facilities like the National Security Agency and U.S. Cyber Command, these sectors are expected to continue their strong growth, creating sustainable, high-paying jobs for Marylanders. DBED has financial incentive programs to help companies in each space grow, as well as teams of expert staffers dedicated to both sectors.

The Biotechnology Investment Incentive Tax Credit, for example, is allocated \$12 million in the budget proposal. Since FY 2007, the program has helped 75 Maryland companies immediately raise more than \$140 million in private capital. The 47 companies that benefited from the program from 2010 to 2014 — when nearly \$44 million in credits were awarded — later went on to raise more than \$465 million from private and federal sources.

Continue support for Maryland tourism and the arts

DBED's Division of Tourism, Film and the Arts is poised to build on Maryland's record of success in growing the jobs, spending, investment, and positive perception of Maryland through the State's unique and diverse tourism and creative industries. Through wise use of state-appropriated funds, visitation to Maryland has increased 33 percent, and sales tax revenues attributable to tourism have grown 38.2 percent since 2007. Nonprofit arts organizations and their audiences have an economic impact of more than \$1 billion and support 12,000 full time equivalent jobs. TFA works closely with local agencies and organizations across the State to provide funding and other support to increase their impact. The Governor's budget proposal includes a total of \$12.4 million for the Maryland Tourism Development Board and the Office of Tourism Development and \$15.4 million in general funds for the Maryland State Arts Council.

III. State of the Economy

After a slow start to 2014, Maryland's economy picked up speed in the second quarter. The State added jobs at double the rate it had in the first three months of the year, a trend that fueled a rise in consumer and business confidence through spring and early summer. This momentum slowed, however, during the third and most of the fourth quarter. December was the exception. The State added 11,000 jobs — the highest monthly gain since March.

In 2014, private sector employers added 27,900 net new jobs in the State while government employment shrank by 1,800 positions. Maryland's unemployment rate declined to 5.5 percent — down from 6.1 percent from December 2013. Looking ahead, the fundamentals of the labor market appear to be strengthening, although job expansion is expected to be slower than average. Forecasting models from Moody's Analytics show most of the jobs that will be added will fall in mid- to high-wage levels, with service positions dominating.

The pace of income growth in the State quickened last year, from 1.1 percent in 2013 to 2.8 percent through the first three quarters of 2014. Throughout the year, consumers also benefited from lower gas prices and low interest rates, allowing borrowers to increase spending on big-ticket items such as houses, cars, and other investments in durable goods. Low rates contributed to a wave of mortgage refinancing in the State and a decline in mortgage delinquencies as housing markets gradually improved with moderate price increases.

While personal income grew, 2014 marked another year of stagnating wages. Economists, however, expect that wages will rise as labor markets improve and employers respond to sustained and robust demand for workers brought on by strong economic activity. At the national level, rising income expectations from consumer confidence surveys show that households expect their incomes to improve notably during 2015.

All of the above fundamentals — housing, labor markets, personal income and consumer spending — contribute to the sense of optimism that the economic recovery is finally well on its way and that growth should gather speed in 2015 and beyond. Nationwide, consumer confidence surveys show that consumers are upbeat about the economy's prospects in the coming year. According to The Conference Board, a private research group, consumer confidence at the beginning of the 2015 was at its highest since August 2007. Typically, in the long run, Maryland's economy tracks closely with the national economy. Given the rising confidence in the markets, the State is poised to benefit from the national economic growth.

IV. FY 2014-15 Accomplishments

In FY 2014, DBED facilitated the creation and retention of 10,627 jobs. The Department provided a range of financial assistance to 109 projects around the State, leveraging \$764 million in private capital investment in Maryland. Those included the relocation of the headquarters of Pandora. The jewelry manufacturer created 150 new jobs in Baltimore City. Coastal Sunbelt Produce, a leading food distributor in the mid-Atlantic, received support for a new headquarters and logistics center in Howard County that created 400 new jobs. DBED has maintained its clip in FY 2015. With the Department's help, WebstaurantStore began renovation of a building in Allegany County. The online food service supply firm's new distribution center will bring with it 150 new jobs. And in Baltimore, a \$2 million conditional loan from DBED was instrumental in Emergent BioSolutions, a global biopharmaceutical firm, doubling its footprint and adding 158 jobs. For additional details on the wide range of DBED programs and activities, please see our Annual Report.

Small Business, Innovation and Entrepreneurship

For the past three years, the U.S. Chamber of Commerce has named Maryland the #1 state in the nation for innovation and entrepreneurship. The Department has built on that success with a range of programs designed to spur entrepreneurship and support the small businesses that form the backbone of Maryland's economy.

Maryland Venture Fund/InvestMaryland

With more than \$110 million currently under management, the Maryland Venture Fund (MVF) is one of the most active venture investors in the State. MVF plays a critical role in the life of many young Maryland technology companies, providing financial booster fuel to propel them across the funding gap between angel and institutional investors. The Fund's focus includes software, communications, cybersecurity and life sciences companies in the areas of healthcare IT, medical devices and diagnostics. MVF has in recent years received approximately \$43 million in new investment capital including, \$20.7 million from InvestMaryland and another \$19 million from the federal State Small Business Credit Initiative program. Since June 2012, MVF has directly invested \$18.5 million in 35 Maryland companies, leveraging another \$221 million in private capital investment.

The Maryland Venture Fund also manages partnerships with private venture capital firms created under InvestMaryland. The State has committed \$54 million to eight private firms committed to investing that amount in Maryland businesses. To date, those firms have invested \$24.1 million, leveraging \$123.5 million in private capital investment. In an effort to foster a more vibrant venture ecosystem, MVF is actively engaging with the venture funds, sharing deal flow and co-investing with almost all of them.

InvestMaryland Challenge

Last fall, the Department launched the third InvestMaryland Challenge, an international seed- and early stage business competition. This year, 214 applicants are vying for more than \$650,000 in prizes. The Department is offering \$100,000 each to companies at the top of four categories — Information Technology, Defense & Security, Life Sciences, and Sustainability & Exploration. Partners and sponsors have contributed another \$200,000 in cash grants and in-kind business services. More will be added to the pool until the winners are chosen in the spring.

The Department has again partnered with Inc. Magazine to promote the competition to a national audience, drawing more attention to Maryland's startup community. This year, 37 companies from 11 other states, Washington, D.C. and Brazil and Israel applied to the Challenge.

To sustain the InvestMaryland Challenge, the Department is exploring the option of spinning it out to a not-for-profit organization in the State while continuing to be a lead sponsor.

Advance Maryland

A partnership between the DBED, the Economic Alliance of Greater Baltimore, and the National Center for Economic Gardening, Advance Maryland supports growth-oriented, "second stage" companies. Research specialists identify a company's business growth goals and develop an action plan focused on core business strategies and management; market research and competitive intelligence; internet presence and search engine optimization; and data analysis using Geographic Information Systems. The pilot in 2013 included five companies selected from

a pool of 21 applicants. In 2014, additional funding supported program participation for 12 companies.

Small, Minority and Women-Owned Business Account

The Department's newest small business funding program receives 1.5 percent of revenue from video lottery terminals at Maryland casinos to make small business loans. To date, DBED has allocated nearly \$17 million to seven fund managers over two rounds. Anne Arundel Economic Development Corp. (\$5.36 million total) and Meridian Management Group Inc. (\$5.5 million total) participated in both rounds. Baltimore County Department of Workforce and Economic Development (\$1.5 million), Baltimore Development Corporation (\$1 million), Howard County Economic Development Authority (\$1.5 million), and the Tri-County Council of Western Maryland (\$1.1 million) all participated in the most recent round.

In FY 2014, the fund managers approved 77 loans totaling \$7.9 million. So far in FY 2015, 15 transactions for \$4.8 million have been approved. The proposed budget includes \$10.6 million for the program in FY 2016.

E-Nnovation

The Department is on track to begin disbursing in early FY 2016 the \$8.5 million allocated to the Maryland E-Nnovation Initiative Fund (MEIF). The program was created during the 2014 General Assembly session and is overseen by the Maryland E-Nnovation Initiative Fund Authority and staffed by DBED. It builds on the linkages between education and economic development. MEIF will receive \$8.5 million per year for six years. The funding will be deployed as matching grants to colleges and universities endowing research and technical chairs.

Implementation of the program has moved swiftly since the statute took effect July 1, 2014. DBED has held 10 public meetings to gather input from major stakeholders among the State's colleges and universities. The Department expects to publish regulations and application procedures this spring and close the first round of applications June 1. Given the strong and sustained interest in the program from the State's higher education community, the full \$8.5 million allotment will be used this coming year.

Core and Emerging Industries

Cybersecurity

The Department's Office of Cyber Development is charged with leveraging the State's world-class cybersecurity assets, including the National Institute of Standards and Technology (NIST), the National Security Agency, and U.S. Cyber Command. DBED has continued its public-private partnership with NIST, Montgomery County, and leading cybersecurity firms to bring together experts from across the field to develop integrated, cost-effective information assurance solutions. DBED was also instrumental in the launch of the Maryland Cybersecurity Roundtable, an industry-led coalition of cybersecurity leaders designed to facilitate discussion of issues, concerns and opportunities. In October, the 2014 CyberMaryland Conference hosted more than 900 attendees from 25 states and five countries, 70 exhibitors, and 125 speakers and panels.

The Department is working closely with the Department of Labor, Licensing and Regulation, the Maryland State Department of Education, colleges, universities, military facilities and training firms in the development of programs to infuse Maryland's labor market with skilled cybersecurity workers.

Life Sciences

DBED's BioMaryland Center, established in 2009, connects life sciences companies and academic and federal researchers with each other and with potential partners, clients, investors, and other sources of capital. The Center provides funding information, site location possibilities, business plan feedback, market research resources, job opportunities, and other industry support. The Center also promotes the State's life sciences industry domestically and abroad.

The Center is a key promoter of the highly successful Biotechnology Investment Incentive Tax Credits and other funding programs. Since 2010, the Center has made more than 48 grants totaling \$8.4 million to help Maryland life sciences organizations commercialize their technologies. Three of these organizations alone — Telcare, Unither Virology, and Gliknik subsequently raised more than \$150 million after the BioMaryland Center's early stage investment. Harpoon Medical, University of Maryland, Baltimore spin-out, raised \$3.75 million in FY 2014 after receiving a commercialization award to advance its noninvasive mitral valve repair technology.

Manufacturing

In 2014, DBED worked with the University of Baltimore to conduct an extensive survey of the manufacturing industry in Maryland. The survey revealed that more than half (54%) of Maryland manufacturers consider themselves advanced manufacturers. These advanced manufacturers are large consumers of technology with a constant need to reinvest to establish and maintain their competitive advantage.

During the past year the Department increased its outreach to manufacturers across the State. In several regions of the State we helped facilitate roundtables where local manufacturers come together to discuss industry and company specific issues and opportunities.

DBED has also worked closely with industry leaders and training organizations to improve the availability of and access to much-needed skilled and semi-skilled manufacturing workers, including the start of a new CNC (computer numerical control) and welding training center in Baltimore City.

Emerging Industries

DBED identifies emerging industries that would both benefit from State support and benefit the State's economy. Recent examples include health technology and education technology. Given Maryland's strengths in health care, education and information technology, the State is well-positioned to be a leader in these nascent, converging industries. Health tech and edtech companies have received funding through the InvestMaryland Challenge and received Maryland Venture Fund investments. The Department has also been an active supporter of the DreamIt Health Accelerator for early stage health tech companies, working with partners such as Johns Hopkins, UMB, the Economic Alliance of Greater Baltimore, BioHealth Innovation and the Abell Foundation.

International Trade

DBED awarded 35 ExportMD grants totaling \$230,000 in FY 2014 to help small- and medium-sized Maryland companies market their products overseas. The Department's international business representatives also led delegations of Maryland businesses to a number of industry events in the past year. The Department took six Maryland companies to the Arab

Health Exhibition & Congress in Dubai and hosted eight companies in the Maryland booth at MEDICA in November 2014, the world's largest medical equipment show in Dusseldorf. The State's continued attendance at MEDICA has resulted in approximately \$5.9 million in export sales. DBED led seven companies to the Paris Air Show as well.

In November 2013, DBED brought together six partner organizations to host the Doing Business in Africa Global Trade Forum. The full-day event brought together more than 200 participants, among them Maryland companies who had the opportunity to meet one-on-one with representative from African embassies, learn about financing options, and network with other companies interested in doing business on the continent.

Marketing Maryland

Marketing and Communications Outreach

The Division of Marketing and Communications is responsible for DBED's public affairs, marketing, and research services that inform and support many Department decisions and programs. The Division coordinated extensive marketing and advertising campaigns that promoted Maryland's resources and assets to businesses as well as researched, wrote, designed and produced industry reports, brochures, sales presentations, and fact sheets to support the Department's business outreach efforts. Some 325 graphic arts projects were produced in-house at a value \$630,000. In 2014, print and online advertisements placed by the Division landed 24.8 million impressions. The Division designed and produced materials for 57 industry events where Maryland's business community, resources and assets were showcased. And public relations efforts earned \$1.5 million in earned media in outlets including *The Wall Street Journal*, *The Washington Post*, CNN, and MSNBC.

Digital Resources

DBED gave its website — ChooseMaryland.org — a makeover in 2014, refining the site's organization and honing the content to better reflect the needs of the business community. Adopting best-practices, the site was designed with a mobile-first mindset and an SEO strategy was established to improve the site's performance on search engines.

In conjunction with the website redesign, a monthly e-newsletter the Business Pulse was launched and a social media strategy was established. All digital resources were optimized to deliver timely economic data, industry reports, information regarding State programs and resources, and business success stories from around the State.

ChooseMaryland.org includes a newly launched data explorer tool. Created for the Department by the Eastern Shore Regional GIS Cooperative at Salisbury University, the tool allows users to delve into information about Maryland, its counties, and comparisons to other states and metro areas.

The Department also went high-tech on history. The Maryland War of 1812 Bicentennial Commission launched two web-based resources in February 2014. KeyCam provides visitors with information on Francis Scott Key and the Star-Spangled Banner, as well as live views of Fort McHenry from Key's perspective. The War of 1812 Interactive Battlefield Maps illustrate Maryland's pivotal role in defense of the nation in four key battles.

Research

DBED's research arm answered more than 300 requests for business intelligence and economic data in 2014 and published 13 economic impact reports. They analyzed the State's Minority Business Enterprise (MBE) program, finding every \$1 in State procurement awarded through it generates \$1.60 in economic impact. The Department worked with the Schaefer Center for Public Policy at the University of Baltimore to field two industry surveys to help the State tailor its programs — one on advanced manufacturing and the other on employment needs in the cybersecurity industry. The Department also, as mandated by the Maryland Jobs Development Act of 2013, analyzed the effectiveness of its financial incentive programs.

Tourism, Film and the Arts

Tourism

Maryland's tourism industry is the 10th-largest source of private sector employer in the State, providing more than 138,000 jobs. The industry generated more than \$15.4 billion in visitor expenditures in 2013, a new peak, and generated close to \$2.1 billion in state and local tax receipts. The Maryland Tourism Development Board commissioned a leading market research company to study the Office of Tourism Development's advertising placements. The study concluded that every dollar spent on the advertising campaign returned \$178 in visitor spending, more than \$25 in state and local taxes and nearly \$5 in state sales tax revenue. The Star-Spangled Spectacular in September 2014 drew 1.43 million visitors to Baltimore, spurred spending of \$164.1 million, led to \$6.42 million in state tax revenues, and supported 4,000 full-time-equivalent jobs.

Film

Supported by the Maryland Film Production Activity Tax Credit, the award-winning Netflix series *House of Cards* completed production on its third season in December 2014, using soundstages in Harford County and locations in Baltimore and elsewhere around the State. Final economic impact numbers for season three are not yet available, but season two of *House of Cards* hired 1,621 Maryland crew, actors and extras. The production purchased or rented goods and services from 3,085 Maryland businesses and vendors.

The critically acclaimed, Emmy-winning series *VEEP* also received film tax credits and completed production of its third season in 2014. Preliminary numbers indicate that season three of *VEEP* hired 1,012 Maryland crew, cast and extras and purchased or rented goods or services from 708 Maryland businesses and vendors. Season four of the HBO production also wrapped in December. Final economic impact numbers for season four are not yet available but the projected combined economic impact of these two series thus far is estimated to exceed \$450 million.

Arts

The Maryland State Arts Council (MSAC) report *Economic Impact of the Arts in Maryland: FY2013* showed Maryland's nonprofit arts sector contributed \$1 billion to the state's economy while supporting 12,000 full-time jobs. These jobs pay \$367 million in salaries to local residents and generate \$45 million in tax revenues for Maryland's state and local governments. Every \$1 of the arts organizations' operating budgets generates an additional \$3.21 in total economic activity. MSAC provides grants to arts organizations, supports public arts projects, helps develop Arts & Entertainment

Districts in which businesses are eligible for tax incentives, supports arts education, and conducts a range of other activities to promote the arts in Maryland.

V. Department of Legislative Services (DLS) Recommended Actions

A complete set of DBED's detailed responses to the DLS recommended actions is contained in the blue-page materials you have received.

VI. Conclusion

The economy is improving and we as Marylanders have cause to be optimistic. The State is adding jobs. The housing market is rebounding. The pace of income growth is picking up. The Governor's budget proposal for DBED is critical to the Department's ability to capitalize on these trends. As businesses look to hire new workers and make large capital investments, DBED is actively engaged in ensuring Maryland companies add jobs right here and those located out-of-state look to Maryland. The Department is redoubling efforts to help entrepreneurs and small business owners hire, grow, and thrive in Maryland's buzzing startup community. We have much to offer — tremendous assets like our talented, driven, and highly educated workforce; our nation-leading public schools; our unmatched quality of life; our vibrant culture, rich history, and diverse heritage. DBED is committed to making sure businesses benefit from those attributes, and making sure the rest of the world is well aware of them.

I would like to thank the Chairman and members of the Committee for their time and consideration and respectfully ask for the Committee's full support of the Governor's budget as presented.

Department of Business & Economic Development

**Responses to the
DLS Analysis of the FY 2016 Budget Allowance**

**Prepared for the Hearing Before the House Appropriations
Subcommittee on Education & Economic Development.**

February 26, 2015

1. **DLS Recommended Action:** Language restricting special funds until a report on the SSBCI is submitted and approved.

Withheld Appropriation Amount: \$100,000 SF

DBED Response: Accept.

DBED respectfully notes that we currently prepare a monthly report, for the House Appropriations Committee, on the SSBCI program, specifically as it relates to the MVF utilization of the SSBCI funds. The February report includes:

- Detail on the events leading to Treasury's approval of the second tranche, briefly summarized in this response.
- Information on a pending request to Treasury to allow MSBDFA to retain its share of the first tranche.
- The \$7,098,484 from tranche #2 allocated to the venture program allows the creation of an external fund structure (Maryland Venture Partners, L.P.). Treasury has approved the plan, which would subordinate its funds as a means of attracting private investment, and is looking to it as a potential model to replicate elsewhere.
- Information on the SSBCI Venture pipeline, currently showing 29 potential investments that could total more than \$13 million. The March report will provide an updated pipeline.

We expect that the report required by the proposed budget bill language would be similar in scope and content to our current monthly report.

2. **DLS Recommended Action:** Strike \$500,000 GF reduction (proposed BRFA Action) to the Cyber Investment Tax Credit Program
Reduction Amount: \$500,000 GF
DBED Response: Concur.

3. **DLS Recommended Action:** Reduce the funds under the Cyber Investment Tax Credit Program by \$500,000.
Reduction Amount: \$500,000 GF
DBED Response: Concur

4. **DLS Recommended Action:** Delete funding for the Maryland E-Nnovation Program.
Reduction Amount: \$8,500,0000
DBED Response: Oppose.

Implementation of the E-Nnovation Initiative Program.

Implementation of the Program has been moving ahead expeditiously, and the Maryland E-Nnovation Initiative Fund Authority (the “Authority”) is on track to begin taking applications prior to the beginning of FY2016 so as to be in a position to begin allocating funds under the Program and making matching endowment grants in the first fiscal quarter of FY2016. The first application deadline for the nonprofit institutions of higher education (“NPIHE”) to submit a research endowment plan and request an allocation of matching funds under the Program is June 1, 2015. The Authority will have 60 days after the first application deadline to review the applications and make allocation to the NPIHEs. After the allocation decision has been made, the NPIHE will submit requests for distributions from the approved allocations. The timing of these requests will be determined by the NPIHEs and presumably based on when their Qualified Donations are available for deposit into the applicable research endowments at the NPIHE. The draft proposed regulations include a second application deadline (November 1, 2015 for FY2016); however, the draft proposed regulations also state that the Authority may allocate the entire budgeted amount after its evaluation of applications and research endowment plans following the first application deadline. The Authority anticipates that the entire \$8.5M budgeted for FY2016 will be fully distributed in FY2016.

The Program became effective on July 1, 2014 with the passage of the Act, and initially the primary focus of activity was the formation of the Authority. Pursuant to the Act, the following individuals were appointed as members of the Authority:

- Robert Hallenbeck (Chair), Vice President, Advanced Bioprocessing, BD Biosciences
- Mike Gill, Secretary, Maryland Dept. of Business and Economic Development (replacing Dominick Murray)*
- William E. (Brit) Kirwan, Chancellor, University System of Maryland*
- Thomas S. Dann, Managing Director of Equity Funds, Maryland Venture Fund*
- Robert Rosenbaum, Executive Director, TEDCO*
- John M. Wasilisin, Chief Operating Officer, TEDCO*
- David Baggett, Founder, Arcode Corporation

* appointed *ex officio*

DBED staff and the Office of the Attorney General (“OAG”) provide administrative and legal support to the Authority.

I. Meetings with Stakeholders

The Authority was constituted in July and conducted its first public meeting in August. The Authority’s initial efforts focused on obtaining input from the major stakeholders among the State’s NPIHEs. Between August 1st and February 23rd the Authority conducted the

following ten public meetings which members of the public attended and had the opportunity to express their views and participate in discussions among Authority members:

August 26, 2014
September 26, 2014
November 3, 2014
November 21, 2014
December 17, 2014
January 9, 2015
January 13, 2015
February 2, 2015
February 13, 2015
February 23, 2015

The public participation at these meetings included representatives from many NPHIEs, including the Johns Hopkins Institutions, University of Maryland (College Park), University of Maryland (Baltimore), University of Maryland (Baltimore County), Salisbury University, University of Baltimore, Towson University, Maryland Institute College of Art, Washington College, St. Mary's College of Maryland and Morgan State University.

II. Promulgation of Regulations to Implement the Act

The Act requires the Authority to adopt regulations to implement the Program. The Authority, with the assistance of the OAG, undertook to formulate regulations as well as evaluation criteria and application procedures. The Authority approved final draft proposed regulations on February 13, 2015, and the DBED Secretary approved the filing of those final draft proposed regulations on February 23, 2015. It is anticipated that the proposed regulations will be submitted to the regulations to the AELR Committee by February 27, 2015, which will be the beginning of the process for publication and promulgation of the final regulations commenced. It is anticipated that the regulations will not be finalized until after the first application deadline (June 1, 2015). However, the Authority anticipates that the NPIHE who have participated in the drafting process to date will be able to rely on the proposed regulations in the preparation of their applications and research endowment plans to be submitted at the first application deadline.

III. FY2015 - FY2016 Timetable for Program Implementation

The Authority's timetable for implementing the Program in FY2015 and FY2016 is based on the Act's establishment of FY2016 (July 1, 2015) as the earliest that E-Innovation funds could be disbursed. As of the latest Authority meeting, the schedule for rollout of the Program is as follows:

Date	Task
Feb. 27, 2015	Submit proposed regulations for to AELR to begin regulation review and publication process
March 1, 2015	Publish evaluation criteria to be used by the Authority in evaluating research endowment plans
March 15, 2015	Publish application forms and procedures
June 1, 2015	First deadline for applications
August 1, 2015	Approve or reject 1 st round endowment plan applications; NPIHE begin submitting requests for distribution of State matching funds from the Program
November 1, 2015	Second deadline for applications (if any \$\$ remain)
January 1, 2016	Approve or reject 2 nd round endowment plan applications
W/i 90 days of the Authority's approval of an NPIHE request for distribution of State matching funds from the Program	<ul style="list-style-type: none"> • NPIHE required to deposit Qualified Donations into the applicable research endowment fund; if an NPIHE fails to meet this deadline, the allocated funds are subject to reallocation by the Authority • All Qualified Donations forming the basis for an NPIHE's request for distribution of allocated funds must be deposited into the applicable research endowment fund no later than June 30, 2016; unrequested funds are subject to reallocation by the Authority
June 30, 2016	Deadline for deposit of NPIHE deposit of Qualified Donations into the applicable research endowment fund; all remaining Program funds should be disbursed by the Authority at or prior to the end of FY2016

Given the high level of interest among the State's NPIHE, as evidenced by their attendance and participation at the Authority's ten public meetings, it appears highly likely that the entire \$8.5 million will be disbursed within FY2015.

5. **DLS Recommended Action:** Reduce general funds for the Maryland Tourism Board
Reduction Amount: \$ 2,157,767 GF
DBED Response: Oppose.

This reduction would effectively cut the budget of the Maryland Tourism Development Board (MTDB) by 30% from FY15 levels to \$3,500,000, hobbling efforts to market Maryland as a visitor destination.

This reduction would reduce the Board's advertising budget dramatically and adversely in a year when, given the recommendations of the Maryland Economic Development and Business Climate Commission, the agencies of DBED are being tasked to redouble efforts to market Maryland effectively, and to expand private participation in the State's marketing efforts. MTDB has a documented and growing record of success in wise and effective investment of limited marketing funds as outlined below.

The intent of the Tourism Promotion Act of 2008 was to grow the MTDB budget based upon successful performance—as measured through the growth of specific sales taxes attributable to tourism by the Comptroller. The MTDB qualified and received additional funding in FY2015 (which was reduced \$1,000,000 by December 2014 Board of Public Works action). Reducing MTDB funding in FY2016, when the sales tax revenues attributable to tourism have grown 38.2 percent since FY2007, far outperforming the 22 percent growth in overall sales tax collections during that time, would negatively impact the positive returns the tourism industry has been generating for the State.

MTDB advertising has been generating a very positive return on investment with each \$1 invested in OTD advertising generating \$177 in incremental visitor spending, \$5 in state sales tax and more than \$25 in state and local taxes. For Maryland to build upon this positive ROI, MTDB planned to fund in FY2016 advertising buys in key feeder markets to promote outdoor recreation, culinary tourism and Scenic Byways driving tours, and robustly build private participation in tourism marketing efforts.

6. **DLS Recommended Action:** Strike the Maryland State Arts Council GF reduction of \$1,361,571 (proposed BRFA action).
Reduction Amount: \$1,361,571 GF
DBED Response: Concur

7. **DLS Recommended Action:** Reduce the funding for the Arts Council by \$1,361,571
Reduction Amount: \$1,361,571 GF
DBED Response: Concur

ISSUES REQUIRING FORMAL COMMENT:

Comment on the principal findings and recommendations contained in the report from the Maryland Economic Development and Business Climate Commission. The department should comment on the proposed structure and any steps already taken to address any perceived shortcomings in the State's business climate.

The work of the Maryland Economic Development and Business Climate Commission has the potential to be a significant game changer for economic development in Maryland going forward. The 32 recommendations touch on a variety of issues and areas of priority the Hogan Administration is interested in addressing. Specifically we would like to highlight the recommendations focused on: creating a Secretary of Commerce in the Governor's Office, restructuring the State's economic development program delivery agencies, enhancing marketing capabilities, customer service training, requiring State agencies with functions affecting business to coordinate and provide a plan outlining how they will help facilitate business growth, recapitalizing the Partnership for Workforce Quality program, and establishing a university executive in residence at the State's economic development agency.

Creating a Secretary of Commerce in the Governor's Office who is empowered with the responsibility, authority and accountability for the State's economic development strategy and the oversight for the three entities outlined in the Commission's report – the proposed Department of Economic Competitiveness and Commerce, TEDCO and the public-private Marketing Office – will serve to strengthen our efforts to improve the State's business climate. The Secretary will be able to ensure these entities provide timely information on and assistance with State resources that serve to help entrepreneurs. In tandem with the creation of the Secretary of Commerce, the proposed restructuring will better align efforts and resources.

Embarking on a customer service training effort for employees of State agencies who regularly interface with businesses is paramount to changing perceptions about Maryland. Empowering the Secretary of Commerce to coordinate with Secretaries of these agencies on their plans to facilitate business growth will help mitigate negative perceptions about Maryland's regulatory agencies.

Of the several recommendations relating to supporting workforce development in Maryland, we are particularly supportive of recapitalizing the Partnership for Workforce Quality (PWQ) program. Several years of cost containment resulted in a reduction of funds to this critical program that supported employer driven workforce development needs. PWQ served to address the unique training needs for Maryland manufacturing and technology employers.

Creating a University Executive in Residence at the Department is a novel approach to helping better connect government resources and businesses to the State's research universities. University success plays a huge role in Maryland's business climate. Whether educators are training our next workforce or conducting critical research, there are opportunities for the Universities and economic development entities to better collaborate.

Tax Credit Evaluation Act – Maryland Film Production Activity Tax Credit

DBED responded to the DLS recommendations contained in the October 2014 “Evaluation of the Maryland Film Production Activity Tax Credit” in a memo to the Tax Evaluation Committee Chairmen - dated December 2, 2014.

DLS recommended the Film Production Incentives be allowed to sunset on July 1, 2016. DBED encourages thorough consideration of the 2010 Sage Policy Group and the 2014 Regional Economic Studies Institute reports which document dramatically higher ROI than the DLS report. The following responses are crafted assuming there is to be a film incentive program going forward, where the benefits of job generation, private sector business activity (including small, minority and women owned business) and state and local tax revenues are deemed sufficient to warrant state investment:

- **DLS recommended replacing the tax credit with a grant program.** DBED does not agree. The principal advantage of a tax credit program is that it does provide exactly the kind of certainty to production companies—especially television production companies--interested in multi-year commitments and thus capable of providing long-term employment. The recent records of VEEP (four Maryland seasons) and House of Cards (three Maryland seasons), productions emblematic of the best of American television, have provided such employment opportunities.
- **DLS recommended local government participation in contributing to the incentives.** DBED is willing to explore feasible models to accomplish this, especially if the complexity of calculating proportionate benefits from filming locations and production expenditures in multiple jurisdictions can be rationally, accurately and easily accomplished.
- **DLS recommended monitoring and reporting small, minority and women owned firms.** DBED agrees that this will be done.
- **DLS recommended limitations on the amount any one film production may receive in a fiscal year.** DBED is willing to explore feasible limitations that will not result in the loss of significant jobs, business activity and tax revenues.

DLS recommends that the department brief the budget committee on the activities of these two new programs.

Regional Institution Strategic Enterprise (RISE) Zone

Status Report: February 2015

As we approach the first anniversary of the passage of the RISE legislation, there is growing activity among higher educational institutions across the State in determining how to use the benefits of the RISE zones to advance institutional and economic goals. They are working with local and county governments, as approvals of zone boundaries will require the consent of these administrations. Since the primary benefit of the RISE zone applies to the property taxes levied upon new capital investment, universities will likely be encouraging the development of proximate land and buildings for office, lab and retail uses.

DBED, as the RISE administrator, has spent considerable time drafting regulations and guidelines for the program in anticipation of the full launch of the program. More detail is offered below.

Chapter 530, Acts of 2014, requires DBED organize a group of stakeholders to provide input on the regulations, standards and guidelines to enact the RISE Zone program. DBED held three stakeholder meetings that included representatives from universities, non-profits, county and municipal government, other state agencies, MACO and MML, and other interested parties. Input from these stakeholders helped the Department develop draft regulations. Draft regulations were circulated to the stakeholder group for comment before being formally submitted to the AELR in December. The regulations (COMAR Title 24, Subtitle 05 Economic Development, 24.05.21) were published January 23, 2015.

In terms of implementation, DBED developed an application for institutions to apply to be designated Qualified Institutions. It also created a webpage with information about the program, including the application. DBED began accepting applications for designation as a qualified institution December 1, 2014. No applications have yet been received as of this writing, although we understand there are pending applications from University of Maryland, College Park and Montgomery College. We have met or been in contact with other potential applicants, including Cecil County Community College, Morgan State University, Baltimore County and Montgomery County.

The second designation element of the program is the actual creation of the zones (the first is the institution). DBED has developed a draft RISE Zone Designation application which will be available on the agency website soon. By statute, applications for RISE Zone designation can be submitted on or after July 1, 2015. The agency will be looking to the local/County jurisdictions and the Qualified Institutions to jointly establish the desired scale and boundaries of the proposed RISE zones.

The assignment of a “conciierge”, included in the original legislation, will take place once the zones are designated, sometime during the second half of 2015. The agency suggests that this

staff role will require greater definition or authority, particularly since permitting and many other approvals will take place at the local level.

EN-novation Program Update: Information on the current status of the implementation of this program is contained in the DBED response to DLS Recommended Action #4 (above)

DLS recommends that the department comment on the SSBCI and the significant delay in disbursing the funds.

There has been significant narrative produced in recent reports that cover the full history of the SSBCI program, including detail on the challenges experienced at the front end of the program. This response covers the most relevant and high-level points.

While the SSBCI program did experience delays in committing funds from its first tranche (the \$23 million total allocation is being disbursed by the US Treasury in three tranches), significant programmatic re-alignment of where the funding is going has eliminated the delay. US Treasury has approved and encouraged this re-alignment.

The SSBCI program is characterized by stringent leverage requirements (a 10 private to 1 SSBCI funding ratio). The initial allocation of the funds envisioned more going to MIDFA and MSBDFA programs, and a comparatively lesser amount to the Maryland Venture Fund (MVF). MIDFA and the specific MSBDFA programs tapped are loan guarantee or direct loan programs, and the leverage ratio proved difficult. Moreover, the timing of the first tranche – mid-2011 into 2013 – coincided with the end of the recession and low levels of business borrowing. In other words, there was little demand for these particular programs.

The MVF, on the other hand, is a venture capital investment program that is naturally accompanied by other, private investors. Demand for the MVF has remained strong. The MVF has disbursed over \$5.0 million in SSBCI funds since inception and has consistently shown the ability to prudently and expeditiously deploy whatever SSBCI funds have been allocated to it and in doing so to achieve outstanding private capital leverage.

DBED recognized the misallocation and modified the SSBCI agreement, reducing MIDFA's allocation by \$9,025,709 to \$1,500,000 and increasing the MVF allocation by \$9,025,709 to \$15,525,709. MSBDFA's first tranche allocation remained in place, and not enough of it was committed to achieve the overall 80% utilization rate required to draw down on the second tranche. This was another element of the delay. Treasury requested and received another modification which reduced the overall amount of funding that MSBDFA will receive from SSBCI (from \$4.5 million to \$1.4 million). The balance was re-allocated to the MVF.

Tranche 2 was received January 22, 2015 and the Budget Amendment allowing the Department to utilize those funds was approved February 12, 2015.