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TESTIMONY OF R. MICHAEL GILL, SECRETARY

on the

FY 2019 COMMERCE ALLOWANCE

before the

SENATE BUDGET AND TAXATION

SUBCOMMITTEE ON EDUCATION, BUSINESS AND ADMINISTRATION

Thursday, March 1, 2018

I. Introduction

Good afternoon Chairman King and members of the subcommittee. Thank you for the opportunity to appear before you today in support of the FY 2019 operating budget allowance for the Maryland Department of Commerce. The proposed \$150 million budget will allow the Department to sustain its continued focus on creating and retaining jobs and spurring economic growth in every region of our state. Providing additional funding for the Maryland Economic Development Assistance Authority and Fund (MEDAAF) and the Economic Development Opportunities Fund, also known as Sunny Day, is essential to addressing the growing pipeline of major economic development projects. Funding these programs will ensure that Maryland remains competitive in the region, in the nation, and around the world.

Before proceeding with our testimony, I want to thank Jason Kramer and the staff of the Department of Legislative Services (DLS) for their thorough and professional review of Commerce's operations and the FY 2019 budget allowance.

Maryland's economy continues to grow, outperforming most of the northeastern states. The state's GDP grew by 2.4 percent between the second and third quarters of 2017, and we saw significant increases in several key industry sectors, including construction, manufacturing, professional services, and utilities. Long term labor market conditions have continued to strengthen, and the state has added 111,500 non-farm jobs since January 2015. Durable manufacturing continues a strong trend, adding 3,300 jobs since January 2015 and ranking 7th in the country. In calendar year 2017, Maryland labor markets were robust; private employers added 24,900 over the 12-month period. All this has contributed to a steady falling unemployment rate and a steep decline in initial claims for unemployment insurance. Looking ahead in 2018, economic models such as Moody's expect the employment growth to continue and wages to rise.

As the economy grows, it is more important than ever that Commerce seize that momentum while remaining focused on our key goals:

- Attract and retain businesses and grow jobs in all regions of the state.
- Support the state's outstanding culture and quality of life.

- Fuel the success of Maryland’s small, minority, and women-owned businesses.
- Position the state’s targeted industries for growth.
- Enhance workforce development programs.
- Promote the state’s unique assets and strategic location.

II. Top Budget Priorities

Modernization and Expanded Funding for MEDAAF

The Maryland Economic Development Assistance Authority and Fund is the Department’s primary direct assistance fund, providing incentives to significant projects that address our mission to Create, Attract, Retain, and Expand (CARE) jobs and stimulate capital investment. Capabilities are broad, including conditional loans and grants, and investments.

MEDAAF has been highly effective in generating substantial revenue returns to the state. Based on the current pipeline of 61 transactions, the projected \$44 million in funding will leverage more than \$1.7 billion in private sector capital investment resulting in nearly 22,000 new and retained jobs.

Recent MEDAAF recipients include Evapco (125 new jobs in Carroll County), Southland Industries (95 new jobs in Prince George’s), Fox 5 Studios (200 new jobs in Montgomery County), Medline Industries (200 jobs in Cecil County), the Nammo Group (130 new jobs in Charles County); Stanley Black & Decker (400 news jobs in Baltimore County).

Demand for funding from the program continues to increase as the economy improves. In each fiscal year, Commerce has utilized its full appropriation.

Year	New Funds Encumbered
FY2012	\$11.5 million
FY2013	\$15 million
FY2014	\$18.3 million
FY2015	\$26.5 million
FY2016	\$19.4 million
FY2017	\$19.8 million

As of mid-February 2018, there were 31 projects totaling \$21.5 million for which MEDAAF funds were encumbered. The program is already oversubscribed by \$1.5 million. Furthermore, an additional 26 projects in process and in discussion require another \$9.8 million that would have to be encumbered over into FY 2019. With the momentum of the economy, businesses are looking to expand and continued funding for MEDAAF is critical to assist in this growth.

Recapitalization of the Economic Opportunities Fund (Sunny Day)

The Economic Development Opportunities Fund, or Sunny Day, supports substantial economic development projects that require financial assistance beyond the capabilities of other state and local funding programs. Through Sunny Day, Commerce was able to provide \$20 million in support to Marriott Corp., which will assist the company in building a new \$600-million headquarters in Montgomery County and securing its presence in Maryland for decades to come. As part of the project, the company will retain 3,500 headquarters employees, who have

average salaries of \$167,000. Over the next 21 years, the projected economic output of the project is \$31 billion. In total, the project will support 72,000 indirect and induced jobs, revenues to area businesses of \$1.2 billion annually, and a 20-year projected tax revenue of \$1.7 billion to the state and \$153 million to Montgomery County.

Additionally, Commerce was able to secure the divisional headquarters of Northrop Grumman, which has more than 10,000 highly-skilled, high-paying jobs that are directly responsible for an estimated \$49.2 million in state personal income and sales taxes per year. In total, the aerospace giant supports more than 25,000 jobs in Maryland and contributes to the generation of \$81.1 million in state tax receipts.

More Jobs for Marylanders

The More Jobs for Marylanders program, approved by the General Assembly in 2017, is already providing much-needed support to Maryland companies and helping foster a revival of the state's manufacturing sector. The program provides tax credit incentives to new and existing manufacturers that create new jobs, with targeted additional incentives available in jurisdictions with higher rates of unemployment.

So far, 95 companies have filed a notice with Commerce that they intend to take advantage of the incentives. Twenty-seven companies have filed official applications, including Marlin Steel and Tulkoff Foods in Baltimore City, Alertus Technologies in Prince George's County, Ring Container Technologies in Washington County, and Sherwin-Williams in Somerset County. These 27 manufacturers are projected to create as many as 980 new jobs over the next few years.

Commerce's fiscal 2019 budget allowance includes \$10 million for two new tax credit reserve funds, which will potentially create thousands of new jobs.

Partnership for Workforce Quality (PWQ)

Our budget allowance includes \$1 million for the worker training program known as the Partnership for Workforce Quality (PWQ), which was revived in 2017. This very popular program awards funds on a matching basis to businesses who invest in training their workforce to maintain a competitive edge. The program is targeted to manufacturers and small technology firms. To date, \$571,995 of PWQ funds have been approved to 22 companies projected to train 456 employees. Companies assisted include: Eight O' Clock Coffee in Prince George's County, Wes Pharma in Carroll County, Jamison Door Company in Washington County, Creafill Fiber Corp in Kent County, and Danko Arlington, Inc. in Baltimore City. In addition, we have 26 projects in the pipeline potentially representing \$310,305 of PWQ funds.

III. Commerce Highlights

Key business wins in 2017

Our business attraction and retention efforts resulted in more than 22,000 jobs created or retained, 84 expansions or location decisions, and more than 3,400 direct outreaches to Maryland companies in FY 2017. Among our recent wins:

- **Freshly** opened its East Coast meal distribution center in Howard County, investing \$8 million in machinery and equipment and will create 500 new jobs by the end of 2018.

- **Tenable**, one of the nation's fastest-growing cybersecurity software companies, is planning a major expansion at its corporate headquarters in Howard County. The company plans to occupy 150,000 square feet in downtown Columbia by early 2019 and will add hundreds of full-time employees over the next few years.
- **Host Hotels & Resorts**, one of the largest owners of luxury and upscale hotels, is relocating its corporate headquarters in Bethesda. The company will occupy a newly developed office tower by late 2019. Host Hotels & Resorts currently employs 187 full-time workers in Montgomery County.
- **EVAPCO**, a global designer and manufacturer of evaporative cooling and industrial refrigeration products, is expanding its Carroll County facility and adding 125 new jobs over the next five years.
- **Union Craft Brewing** will relocate and expand its brewery and taproom in Baltimore City with a move to the new Union Collective building this spring.
- **Amazon** announced two new fulfillment centers – a 1.2 million square-foot building in Cecil County that recently opened and has already exceeded a projection of 700 new jobs – and an 855,000 square-foot building at the Tradepoint Atlantic site in Baltimore County to be constructed this year, creating 1,500 jobs.
- **Medline**, a global manufacturer and distributor of medical supplies and clinical solutions, will be nearly tripling its footprint in Maryland with the construction of a 1.1 million square-foot distribution center in Cecil County. Medline expects to create more than 200 new jobs over the next six years.
- **Toroid Corporation**, which manufactures electrical transformers and other power products, is expanding its presence in Wicomico County and plans to hire 50 new employees over the next three years.
- **Lanco Dairy Farms** established a cheese-making operation in Washington County where it invested \$24 million to acquire and refurbish the facility. Lanco plans to add 15 new jobs over the next two years.

Commitment to Small Business

Small, Minority and Women-Owned Businesses Account

The Small, Minority, and Women-Owned Business Account — commonly referred to as the Video Lottery Terminal (VLT) Fund — has quickly grown into one of Commerce's most widely used financial assistance programs. Since FY 2014, Commerce has committed \$52.2 million for small business loans made by fund managers in every region of the state. Recipients include manufacturers, restaurants, IT firms, cybersecurity companies, and other small businesses. Since inception, fund managers have approved 378 transactions totaling \$43.7 million and nearly 80 percent of the funds went to minority-, women-, or veteran-owned businesses.

In August of 2017, Commerce contracted with the Regional Economic Studies Institute at Towson University to conduct a study of the economic impact of the VLT program. The study

concluded the “VLT program has had a sizable and positive impact on Maryland’s economy noting the program has resulted in an increase of 3,059 jobs above what would have happened if the program had not existed. These jobs supported nearly \$466 million in output and almost \$160 million in wages in FY 2017.”

Given the tremendous success of the program and a growing demand, continued funding of this program is critical to supporting thousands of small businesses that serve as the backbone of Maryland’s economy.

ExportMD

In FY 2017, Commerce awarded 50 ExportMD grants totaling \$283,000 to help small- and medium-sized Maryland companies market their products overseas. Thanks to these the grants, 42 Maryland businesses were able to attend a number of international trade shows to which Commerce led delegations. These included aerospace, defense and security trade shows in the U.K. (Farnborough Air Show and Infosecurity), Australia (Avalon), Singapore (Milipol), and France (Paris Air Show), as well as health care trade shows in Germany (Medica) and UAE (Arab Health). As a result of the grants and Commerce assistance, Maryland companies reported more than \$100 million in export sales in FY 2017. To help fund the ExportMD program, Commerce was awarded a \$600,000 State Trade and Export Promotion (STEP) grant from the U.S. Small Business Administration. This is the fifth year the Department has received the award.

Small Business Outreach

In FY 2017, The Small Business Resources team at Commerce met with 116 individual small businesses in Maryland and responded to more than 855 small business inquiries for assistance. Commerce representatives also attended 58 small, minority and women business events throughout the state to promote and explain state small business programs and initiatives.

Through our milestone program started in 2016, Commerce has recognized dozens of Maryland companies, helping them celebrate significant anniversaries and thanking them for their commitment to doing business in Maryland. This year’s milestone visits included the 100th anniversary of Norris Ford in Dundalk, the 150th anniversary of Craig’s Drug Store in Cambridge, the 25th anniversary of Power Marketing in Hagerstown, and the 25th anniversary of Kelly Generator & Equipment in Owings.

Targeted Industries

Manufacturing

In addition to promoting the new More Jobs for Marylanders Manufacturing Tax Credit program, Commerce’s manufacturing staff have been focused on staffing the re-established Maryland Manufacturing Advisory Board which is now more cohesive and industry-driven. The Board has met twice and has expressed an intent to focus on workforce development issues.

As the industry moves towards the implementation of advanced manufacturing methodologies, known as “Industry 4.0,” Commerce continues to work closely with its manufacturing resource partners to advance the adoption of technologies such as automation, robotics, 3D printing, and additive manufacturing within the industry.

Aerospace

The University of Maryland Unmanned Autonomous Systems Test Site in St. Mary's County continued to gain prominence in 2017 as a national leader in developing new roles, policies, and procedures for unmanned systems, assisting Maryland companies develop in this emerging industry. Commerce partnered with the test site to respond to the Federal Aviation Administration's UAS Initial Pilot Program request for proposals. If successful, Maryland would be selected as one of 10 sites to develop commercially viable use cases for employment of drones.

Commerce is also working with the Cumberland Regional Airport and the Appalachian Regional Commission to investigate opportunities for creating an autonomous vehicle test site at the airport.

Cybersecurity

Maryland continues to lead the nation in cybersecurity. Among the highlights of 2017 was the opening of the Baltimore Cyber Range and the expansion of ELTA North America's headquarters in Maryland. The Baltimore Cyber Range develops and delivers basic IT and cyber skills training required to obtain entry level positions to the unemployed and underemployed. ELTA relocated and tripled the size of its North American headquarters in Howard County, and also announced that it planned to create a Cyber Innovation Center and add 50 new jobs.

For the sixth year in a row, the Department led an industry team to the RSA Conference in San Francisco, the world's largest gathering of information security professionals. Commerce also brought a delegation to InfoSec Europe (the continent's largest cybersecurity event) for the first time. Governor Larry Hogan formalized a relationship that has been budding for over a year when he met with British cybersecurity leaders in Parliament to sign an MOU establishing a partnership with Midlands to collaborate in this critical field.

Biohealth and Life Sciences

Life sciences continues to grow in Maryland as the industry collectively works toward a goal of making the state a top 3 U.S. biohealth innovation hub by 2023. Last April, the Maryland Life Sciences Advisory Board issued 12 key recommendations to help reach this goal. Commerce is actively involved with the implementation of these recommendations by supporting numerous projects, partnerships and initiatives.

Commerce manages one of the nations' most popular and successful tax credit programs for the life sciences. The Biotechnology Investment Incentive Tax Credit assisted 24 companies and leveraged \$24 million from 164 investors through the issuance of \$12 million in tax credits. In FY 2017 biohealth and life sciences companies received \$17.3 million in funding through the various grant and tax credit programs managed by Commerce.

Education & Innovation

Maryland continues to build partnerships that highlight the importance of economic development as it relates to higher education and innovation. Among those efforts in 2017 are the Maryland E-Innovation Initiative Fund and the Internship Network of Maryland (inMD).

The Maryland E-Innovation Initiative Fund Authority has provided \$24.5 million in funding to leverage \$28.7 million in private donations. In 2017, the Authority made eight awards to six different non-profit higher education institutions totaling \$8.5 million and included investments in research to enable the early detection and monitoring of cancers, efforts to

address severe stroke and traumatic brain injury, and research to assist and educate farmers on how to improve soil health, yield, and profitability.

The Internship Network of Maryland (inMD), a web-based program developed by Commerce in collaboration with Breezio, is now managed through the Maryland Tech Council (MTC) for ongoing promotion, fundraising and management. The inMD marketplace focuses on helping to attract talent by centralizing the candidate pool, training and prequalifying candidates according to business needs, and then delivering the right candidates to business with automation.

Expanding our global footprint

In addition to awarding ExportMD grants, Commerce coordinated and executed the Governor's investment and trade missions to France, the United Kingdom and Canada, as well as a Commerce mission to South Korea attended by the First Lady, and the Lt. Governor's mission to Europe, resulting in a number of foreign companies announcing plans to locate in Maryland.

Commerce also increased its number of offices in foreign countries to 18, including newly-established offices in the United Kingdom and South Africa.

The Department's Global Consulting Program was made permanent in partnership with the Center for International Business Education and Research (CIBER) at the Robert H. Smith School of Business at the University of Maryland, College Park. This program assists Maryland companies with research, talent, and executive training to support entry in the global marketplace.

In 2017, Commerce engaged 379 international companies, 17 of which made investments in Maryland. Thirty-nine foreign prospects visited Maryland last year as a result of Commerce's 87 marketing outreach activities to foreign companies.

Tourism, Film and the Arts

- **Tourism** – Visitors to Maryland are continuing to increase, with more than 42.1 million domestic visitors in 2016, a nearly 4 percent increase from 2015. In addition, visitor spending climbed nearly 3 percent to \$17.3 billion in 2016. Spending from visitors generated more than \$2.3 billion in state and local taxes and saves every Maryland household \$1,080 annually. Helping drive the increase in visitors is the expansion of the state's tourism marketing footprint to Pennsylvania, Ohio, and New York.
- **Film** – The Maryland Film Production Activity Tax Credit supported one major production in 2017 — the award-winning Netflix series *House of Cards* (HOC). Filming for season 5 and a portion of the 6th and final season took place this past year. The combined economic impact of the first five seasons in Maryland is nearly \$600 million. HOC hired an average of 2,085 Marylanders per season, and directly bought or rented goods or services from an average of 2,134 Maryland businesses per season. In addition to *House of Cards*, the independent film *All Square* filmed for 17 days in Maryland.
- **Arts** – With a \$1.32 billion impact in FY 2016 and 16,624 jobs, the arts are a powerful economic engine. Spending by the Maryland State Arts Council's (MSAC) 304 grantee arts organizations and their audiences generated \$56 million in state and local tax revenue, and \$3.83 in total economic activity was generated for every dollar of the operating budgets of arts organizations in the state. During FY 2017, through its flagship

Grants for Organizations and Community Arts Development Programs, MSAC awarded operating grants totaling nearly \$17 million to 309 non-profit organizations across the state, including grants to the local arts councils. In addition, MSAC's Arts in Education Program reached more than 120,000 students through performances and workshops in 559 Maryland schools.

“Open for Business” campaign

The Maryland Public-Private Partnership Marketing Corporation, known commonly as the Maryland Marketing Partnership (MMP), officially launched its “Open For Business” branding campaign within Maryland in September. The campaign includes a mix of print, radio, outdoor, and digital advertising targeted at decision-makers in key industry sectors like cybersecurity and IT, life sciences, aerospace, advanced manufacturing, energy and agribusiness across the United States. During the fall 2017 launch, the campaign generated more than 24 million impressions throughout the state. Total visits to the open.maryland.gov website increased nearly nine-fold while site visits of two minutes or longer increased 175 percent.

In Spring 2018 the campaign is expanding its national reach with additional print and digital ad placements, including planned placements in *Inc.*, *Wall Street Journal*, *Fortune* and *Site Selection* as well as business journal publications in key markets across the country.

To augment the state's investment in MMP programs, the partnership has also raised funds from the private sector. As of February 2018, the MMP has received corporate commitments totaling \$4.26 million in staggered, multi-year terms. This will allow MMP to continue sharing Maryland's strong pro-business message and promote Maryland's assets to both an in-state and out-of-state business audience.

IV. Department of Legislative Services (DLS) Recommended Actions

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

V. Conclusion

The proposed FY 2019 budget for Commerce reflects the Administration's unwavering focus on creating economic opportunities across Maryland by attracting new companies, supporting our existing companies as they grow, assisting our small businesses, promoting our assets, and continuing to enhance our quality of life. The additional funding, particularly for our financing programs, is essential if we are to capitalize on Maryland's strong economy and continue to help businesses who are finally able to expand, create new jobs, or make Maryland their new home.

I want to close by recognizing the budgetary pressures that this Committee has faced in recent years. We at Commerce appreciate your hard work and your thoughtful, considerate approach to crafting strong and sensible budgets for the Department. With a strong economy, we can foster a better quality of life and more opportunities for growth that will benefit all the people of Maryland.

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.