

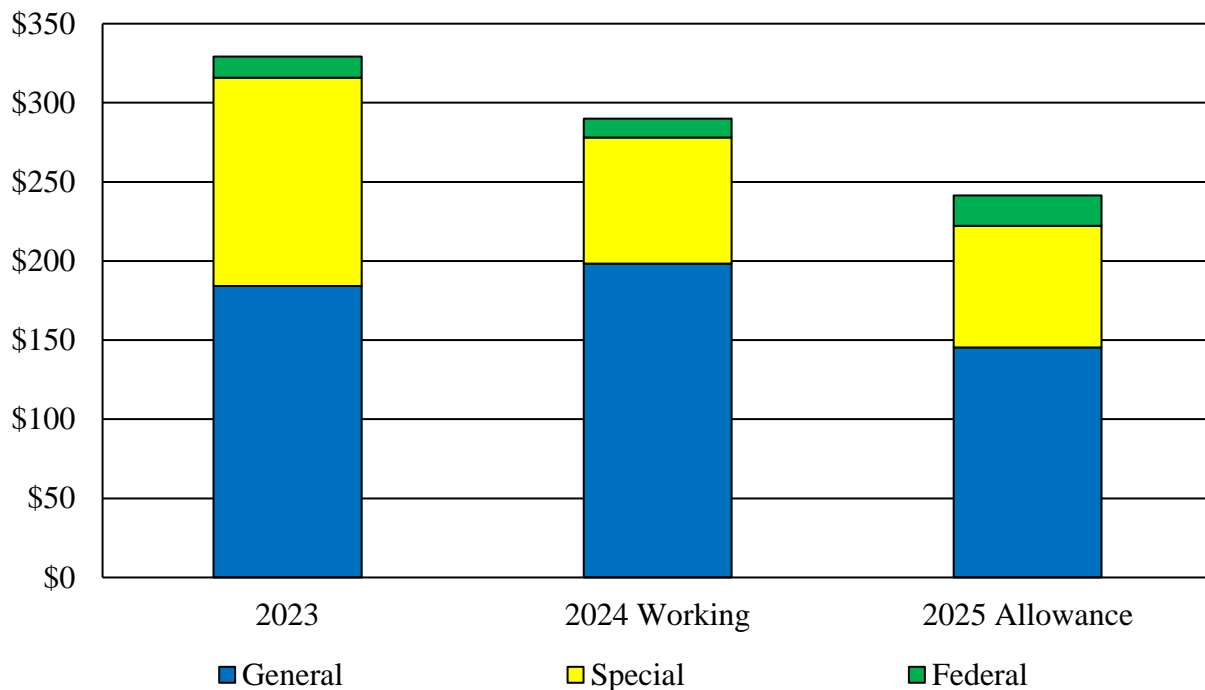
T00
Department of Commerce

Executive Summary

The mission of the Department of Commerce (Commerce) is to strengthen the Maryland economy. Commerce develops and implements programs that aim to generate new jobs or retain existing jobs, attract business investment in new or expanding companies, and promote the State’s strategic assets.

Operating Budget Summary

**Fiscal 2025 Budget Decreases \$48.5 Million, or 16.7%, to \$241.5 Million
(\$ in Millions)**



Note: The fiscal 2024 working appropriation includes deficiencies and contingent reductions. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

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- The overall budget decrease in fiscal 2025 is driven largely by one-time funding additions in fiscal 2024, including \$40 million for the Cannabis Business Assistance Fund.

Key Observations

- ***More Jobs for Marylanders Allowance Increases:*** The More Jobs for Marylanders tax credit program’s fiscal 2025 allowance increases 10.4% to \$37.5 million. Companies may apply to participate in the program through May 2024.
- ***Small, Minority, and Women-Owned Businesses Account (SMWOBA) Increases Amount of Loans Settled:*** The total value of transactions settled by fund managers was \$19.0 million in fiscal 2023, a 75% increase from the prior year. As the value of the fund continues to rise, Commerce has introduced legislation to increase utilization of the fund, including expanding the program to offer grants as well as loans, and plans to solicit additional fund managers to participate in the program.

Operating Budget Recommended Actions

1. Add language to increase the budgeted turnover rate to the level of the fiscal 2024 rate of 5.43% and reduce the total appropriation by \$130,185.
2. Amend language to align the wording of contingent language reducing funds for the Business Telework Assistance Grant program to reflect the legislation as introduced.

Updates

- ***Sunny Day Fund Award:*** Commerce submitted notification in October 2023 regarding the planned distribution of \$2 million in fiscal 2024 from the Economic Development Opportunities Fund (Sunny Day Fund) to United Safety Technology Corporation (USTC). The \$2 million disbursement is the first installment of a planned \$6 million total award for USTC to assist in funding the construction and equipping of a nitrile glove manufacturing facility in the former Bethlehem Steel facility at the Tradeport Atlantic Development in Baltimore County.

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Operating Budget Analysis

Program Description

Commerce’s primary goals are to increase business investment in Maryland, enhance business success and competitiveness of businesses in their distinct markets, develop a diverse economic base, and ensure that all jurisdictions share in the State’s economic vitality. The department contains the following three divisions:

- ***Business and Industry Sector Development:*** This division unites the department’s field staff, small business, and finance teams to provide assistance to the Maryland business community and to the department’s local economic development partners. The division houses Commerce’s business assistance programs, including the Maryland Economic Development Assistance Authority and Fund (MEDAAF), the Maryland Small Business Development Financing Authority (MSBDF), SMWOBA, and the Sunny Day Fund. This division also includes the offices of Strategic Industries, International Investment and Trade, and Military and Federal Affairs. The division also administers several tax credit programs, three of which are budgeted within the department’s appropriation: the More Jobs for Marylanders; Biotechnology Investment Incentive; and Innovation Investment Incentive programs.

- ***Marketing, Tourism, and the Arts:*** This division’s mission is to strengthen the State’s quality of life and encourage economic development by investing in and promoting Maryland’s unique historic, cultural, and natural assets. The division includes the offices of Marketing and Communications, Tourism Development, and the Maryland State Arts Council (MSAC).

- ***Administration and Technology:*** This division includes the offices of Budget and Finance, Contracts and Procurement, General Services, Human Resources, and Information and Technology Management.

Fiscal 2024

Implementation of Legislative Priorities

Commerce’s fiscal 2024 appropriation included 11 legislative additions provided in Section 19 of the fiscal 2024 Budget Bill. Commerce has completed most of the awards, with a few still in progress. All are one-time allocations that do not continue in the fiscal 2025 allowance. **Exhibit 1** shows the amount, purpose, and status of Section 19 additions in the fiscal 2024 budget.

Exhibit 1
Status of Fiscal 2024 Legislative Additions for Grants
As of February 2024

<u>Amount</u>	<u>Recipient</u>	<u>Purpose</u>	<u>Status</u>
<i>Completed</i>			
\$1,000,000	Olney Theatre Center for the Arts	Grant	
500,000	Boulangier Initiative, Inc.	Grant	
500,000	Baltimore Symphony Orchestra	Grant to support the Music for Maryland Tour	
100,000	Chesapeake Shakespeare Company	Grant	
100,000	Prince George’s Arts and Humanities Council	Grant to support the activities of the Film Office	
100,000	Waterfront Partnership of Baltimore	Grant	
100,000	Your Public Radio Corporation	Grant to produce a multiday event or events that primarily showcase Maryland-based film and filmmakers	
<i>In Progress</i>			
\$250,000	Maryland Tech Council	Grant for a BioHub Maryland Initiative	Commerce is working with the council on a revised scope of work in order to execute a grant modification and encumber the funds.
150,000	Visit Annapolis and Anne Arundel County	Grant to conduct a market and economic feasibility study for a conference center	Application information was recently received from Visit Annapolis, and Commerce is in the process of making this award.

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<u>Amount</u>	<u>Recipient</u>	<u>Purpose</u>	<u>Status</u>
100,000	Historic St. Mary’s City Fort to 400 Commission	Funding to support two new contractual FTEs to provide staffing support	The FTEs have not been filled as of this writing due to a lapse in commission meetings. Commerce is currently working with the commission to resume meetings and is seeking to issue a request for proposals to secure a consultant who will develop an action plan to meet the commission’s objectives.

Commerce: Department of Commerce
FTE: full-time equivalent

Source: Department of Commerce

Cannabis Business Assistance Fund

Section 19 also included \$40 million for the Cannabis Business Assistance Fund (CBAF), which provides grants and loans to small businesses entering the adult-use cannabis industry. The fund also received \$40 million in the fiscal 2023 appropriation and began issuing grants and loans in fiscal 2024. The three rounds of funding that Commerce has made available thus far have been open to or prioritized social equity applicants or those who live in areas that have been disproportionately affected by cannabis criminalization. As of February 2024, the fund had a remaining balance of more than \$34 million. **Exhibit 2** provides a summary of fiscal 2024 funding opportunities completed or in progress.

Exhibit 2
Cannabis Business Assistance Funding
Fiscal 2024

<u>Funding Opportunity</u>	<u>Purpose and Eligibility</u>	<u>Awards</u>	<u>Total Award Amount</u>
Round 1 Medical Cannabis License Conversion Fee Assistance	Grant funding up to \$50,000 for qualified license holders to convert their licenses pursuant to new cannabis regulations, with priority given to social equity applicants	14	\$575,000
Round 2 Pre-Operational Social Equity Licensee Assistance	Grants or loans for social equity licensees who received stage one pre-approval before October 1, 2022, and were not operational as of August 1, 2023	9	44,976,146
Round 3 Social Equity License Application Assistance Reimbursement Grant	Reimbursement grants of up to \$5,000 for social equity applicants to fund 50% of eligible expenses involved with preparing to apply for the next cannabis business license lottery	Not yet awarded	Not yet awarded
Total Awarded			\$45,551,146
Remaining Fund Balance			\$34,448,854

Source: Department of Commerce

The amount of funds that will be distributed in Round 3 of funding is unknown at this time, but based on the number of applications for licenses received by the Maryland Cannabis Administration, Commerce anticipates awarding a maximum of \$7 million to eligible applicants. The fund will also receive a portion of cannabis sales tax revenues for fiscal 2024 through 2028. Commerce is in the process of planning additional funding opportunities for fiscal 2025 and will solidify those plans once the agency has a clearer estimate of tax revenues and how much funding remains in the CBAF after the current round of funding concludes. Commerce has submitted a budget amendment to increase the fiscal 2024 CBAF spending level to align with the value of awards expected to be made. However, this amendment has not been processed as of this writing.

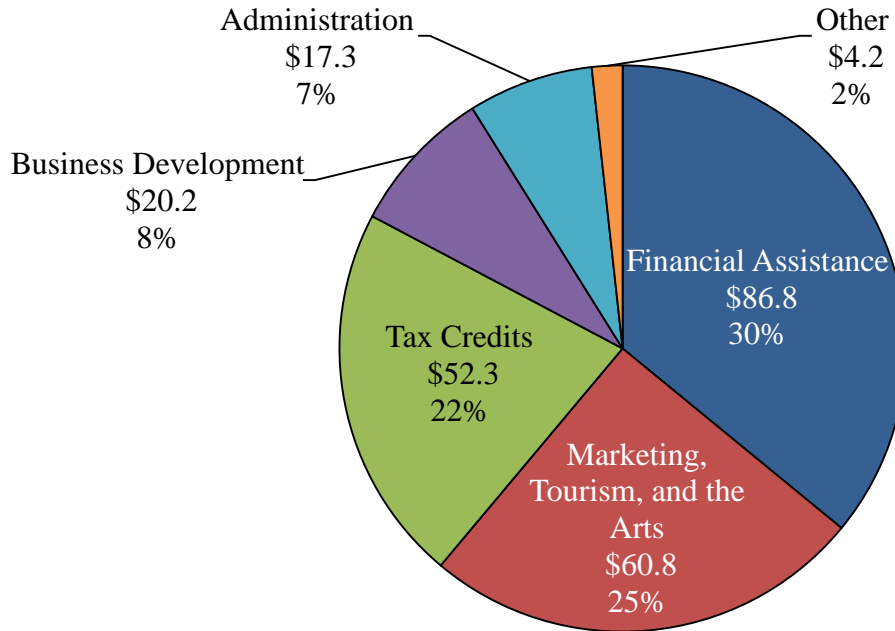
Proposed Deficiency

The fiscal 2025 Budget Bill includes a proposed deficiency appropriation of \$4.5 million in general funds for fiscal 2024 for the Child Care Capital Support Revolving Loan Fund. This amount was reverted to the General Fund in error at the end of fiscal 2023, and the proposed deficiency appropriation will make that program whole. The fund, established by Chapter 466 of 2022, provides no-interest loans for capital expenses related to child care facilities. Child care providers must repay loans from the fund within five years, and program eligibility is limited to providers who participate in the Maryland State Department of Education’s Child Care Scholarship Program.

Fiscal 2025 Overview of Agency Spending

Commerce’s fiscal 2025 allowance totals \$241.5 million after accounting for a contingent reduction, a majority of which goes to financial assistance and tax credits to encourage business development and growth in the State, as shown in **Exhibit 3**. Commerce also administers a number of grant programs for the arts and oversees marketing strategy for the State as a place for businesses to locate and as a travel destination.

Exhibit 3
Overview of Agency Spending
Fiscal 2025 Allowance
(\$ in Millions)



Note: The fiscal 2025 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget. The fiscal 2025 allowance accounts for contingent reductions.

Source: Governor’s Fiscal 2025 Budget Books

Financial Assistance

Financial assistance programs receiving funding in the fiscal 2025 allowance include the MSBDFA business assistance program (\$19.4 million), MEDAAF (\$17.5 million), and SMWOBA (\$21 million).

Marketing, Tourism, and the Arts

The largest recipient of funding in Marketing, Tourism, and the Arts is MSAC, which administers a variety of grant programs for artists and organizations. MSAC receives \$31.0 million in the fiscal 2025 allowance. The Maryland Tourism Development Board, which creates and implements tourism marketing strategies for the State, receives \$15.5 million.

Tax Credits

Commerce administers tax credit programs designed to encourage business investment in the State. The More Jobs for Marylanders Tax Credit Reserve Fund receives \$37.5 million in the fiscal 2025 allowance. This amount is based on estimates of future tax credits to be claimed under the program. Other tax credit programs in the proposed budget include the Maryland Biotechnology Investment Tax Credit Reserve Fund (\$12 million) and the Innovation Investment Incentive Tax Credit Program (\$2 million in mandated funding).

Proposed Budget Change

As shown in **Exhibit 4**, Commerce’s fiscal 2025 allowance decreases by \$48.5 million compared to the fiscal 2024 working appropriation after accounting for a contingent reduction. General funds decrease by about \$53.0 million, driven by fiscal 2024 funding for CBAF (\$40 million) and the Child Care Capital Support Revolving Loan Fund (\$14.5 million) that does not continue. Special funds decrease by about \$2.9 million, driven by a \$2 million decrease in funding for the Sunny Day Fund, which is discussed further in the Updates section of this analysis, and a \$1.5 million decrease in funding for the Maryland Biotechnology Investment Tax Credit Reserve Fund. These decreases are partially offset by a \$7.5 million increase in federal funds, \$7.0 million of which is funding from the State Small Business Credit Initiative (SSBCI) for Commerce’s MSBDFFA program.

Exhibit 4
Proposed Budget
Department of Commerce
 (\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Total
Fiscal 2023 Actual	\$184,155	\$131,772	\$13,273	\$329,200
Fiscal 2024 Working Appropriation	198,333	79,755	11,903	289,991
Fiscal 2025 Allowance	<u>145,325</u>	<u>76,826</u>	<u>19,388</u>	<u>241,539</u>
Fiscal 2024-2025 Amount Change	-\$53,008	-\$2,929	\$7,485	-\$48,452
Fiscal 2024-2025 Percent Change	-26.7%	-3.7%	62.9%	-16.7%

Where It Goes:

Personnel Expenses

	<u>Change</u>
Costs associated with 19 new positions, including 3 positions created through Board of Public Works action in fiscal 2024 not yet reflected in the budget	\$1,455
Salary increases and associated fringe benefits including fiscal 2024 cost-of-living adjustment and increments.....	1,433

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Where It Goes:	<u>Change</u>
Turnover rate decreases from 5.43% to 4.89%	130
Workers’ compensation premium assessment	-38
Program Expenses	
State Small Business Credit Initiative federal funding for the Maryland Small Business Development Financing Authority	7,000
More Jobs for Marylanders tax credit reserve	3,528
Industry 4.0 Technology Grant Program funding mandated by Chapter 498 of 2023	1,000
Federal grant for defense modernization via the Maryland DefTech Center.....	750
Small, Minority, and Women-Owned Businesses Account	362
Maryland State Arts Council Grants for Art Organizations program.....	201
Maryland Economic Adjustment Fund.....	-300
Funding for grants to businesses impacted by the Purple Line mandated by Chapter 116 of 2022	-1,000
Funding for Business Telework Assistance Grant program, contingent on legislation.....	-1,000
Maryland Manufacturing 4.0 Grant Program.....	-1,000
Economic Development Opportunities Fund (see Updates section of this analysis for additional information).....	-2,000
One-time grants and assistance	-2,870
Funding for the Child Care Capital Support Revolving Loan Fund due to the end of funding mandated by Chapter 466 of 2022 and a proposed deficiency appropriation replacing funds reverted in error at the end of fiscal 2023	-14,540
Cannabis Business Assistance Fund	-40,000
Other grants.....	-705
Operational Expenses	
Cost allocations.....	114
Rent.....	-79
Marketing and advertising contracts	-100
Contractual staff costs, due to 11 contractual positions converted to regular personnel and 1 eliminated full-time equivalent	-657
Other operational costs	-136
Total	-\$48,452

Note: Numbers may not sum to total due to rounding. The fiscal 2024 working appropriation includes deficiencies. The fiscal 2025 allowance accounts for contingent reductions. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

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The fiscal 2025 Budget Bill includes \$1 million in mandated funding for the Business Telework Assistance Grant Program; however, language in the bill would delete this funding contingent upon the enactment of legislation to eliminate the program. The Department of Legislative Services (DLS) notes that language to eliminate the funding mandate for the program, but not the program itself, was included in SB 473 and HB 582 as introduced. **DLS recommends amending the language to make the funding reduction contingent upon the enactment of legislation to eliminate the funding mandate for the program rather than elimination of the program.**

SSBCI Funding

Commerce administers federal SSBCI funding through the MSBDFA program. MSBDFA receives \$14 million through SSBCI in the fiscal 2025 allowance, a \$7 million increase from fiscal 2024. In total, Maryland is expected to receive \$198 million in SSBCI funding, with \$45 million of that distributed through MSBDFA. MSBDFA is managed by a private contractor, the Meridian Management Group, and provides loans to small businesses.

Infrastructure Investment and Jobs Act Funding

Commerce has applied for just over \$1 million through the State Manufacturing Leadership program under the Infrastructure Investment and Jobs Act. If the application is approved, Commerce would work in collaboration with the Maryland Energy Administration to carry out a project called Maryland MADE 4.0 – Manufacturing Asset Deployment for Energy. The project would promote energy, production, and quality efficiency through a combination of technology applications and community workforce training. The application is pending, and funding is not included in the fiscal 2025 budget. If received, the funding would have an estimated State match of \$800,000 and a period of performance from the receipt of the award, likely from spring 2024 through December 2025.

Personnel Data

	<u>FY 23</u> <u>Actual</u>	<u>FY 24</u> <u>Working</u>	<u>FY 25</u> <u>Allowance</u>	<u>FY 24-25</u> <u>Change</u>
Regular Positions	188.00	189.00	208.00	19.00
Contractual FTEs	<u>31.90</u>	<u>38.40</u>	<u>26.40</u>	<u>-12.00</u>
Total Personnel	219.90	227.40	234.40	7.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	9.10	4.89%
Positions and Percentage Vacant as of 12/31/23	19.00	10.05%
Vacancies Above Turnover	9.90	

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- As of December 31, 2023, the department’s vacancy rate was 10.1%, a slight increase from the vacancy rate at the same time the prior year (9.6%). The 19 current vacancies are spread throughout the department, with the largest concentration being 4 vacant positions in the Office of Strategic Industries and Entrepreneurship. As of February 2024, 5 of the positions (26%) have been vacant for a year or longer and 9 (47%) have been vacant for six months or fewer.
- Three new positions were created by the Board of Public Works (BPW) on August 23, 2023, which are included among the 19 positions shown as new for fiscal 2025, to administer the CBAF. Eleven of the new positions are contractual conversions. The number of contractual full-time equivalents is reduced by 12 accounting for the contractual conversions.
- The fiscal 2025 allowance reduces the agency’s turnover rate from the fiscal 2024 working appropriation of 5.43% to 4.89%, despite the fact that vacancies have increased by 1 from the prior year. **DLS recommends increasing the budgeted turnover rate to 5.43% and reducing the total appropriation by \$130,185 to account for the adjustment. The reduction would be \$96,494 in general funds, \$30,792 in special funds, and \$2,899 in federal funds.**

Issues

1. More Jobs for Marylanders Allowance Increases

Chapter 149 of 2017, as modified by Chapter 136 of 2022, established the More Jobs for Marylanders Program, which provides State income tax, sales tax, property tax, and fee benefits to certain businesses that create and maintain a minimum number of qualified jobs. Eligibility for specific benefits is determined by the type of business, its location, whether it is a new business, and whether it enrolled in the program before or after the Chapter 136 modifications. Generally, a business must be primarily engaged in manufacturing or located in a federal opportunity zone to be eligible. As long as program requirements continue to be met, businesses are eligible for 5 or 10 consecutive years of benefits. Benefits include a refundable State income tax credit equal to 4.75%, or 5.75% of the wages paid to each qualified position, with the lower rate for projects enrolled after the Chapter 136 modifications. Chapter 136 also extended the program for 2 additional years so that Commerce can certify projects through May 31, 2024.

Tier I Areas, where projects are eligible for 10 years of benefits, include Baltimore City and Allegany, Baltimore, Caroline, Cecil, Dorchester, Garrett, Kent, Prince George's, Somerset, Washington, Wicomico, and Worcester counties as well as opportunity zones anywhere in Maryland. All other areas are Tier II Areas, where projects are eligible for 5 years of benefits. Counties must meet specified income or unemployment criteria or be designated by Commerce to be considered a Tier I Area.

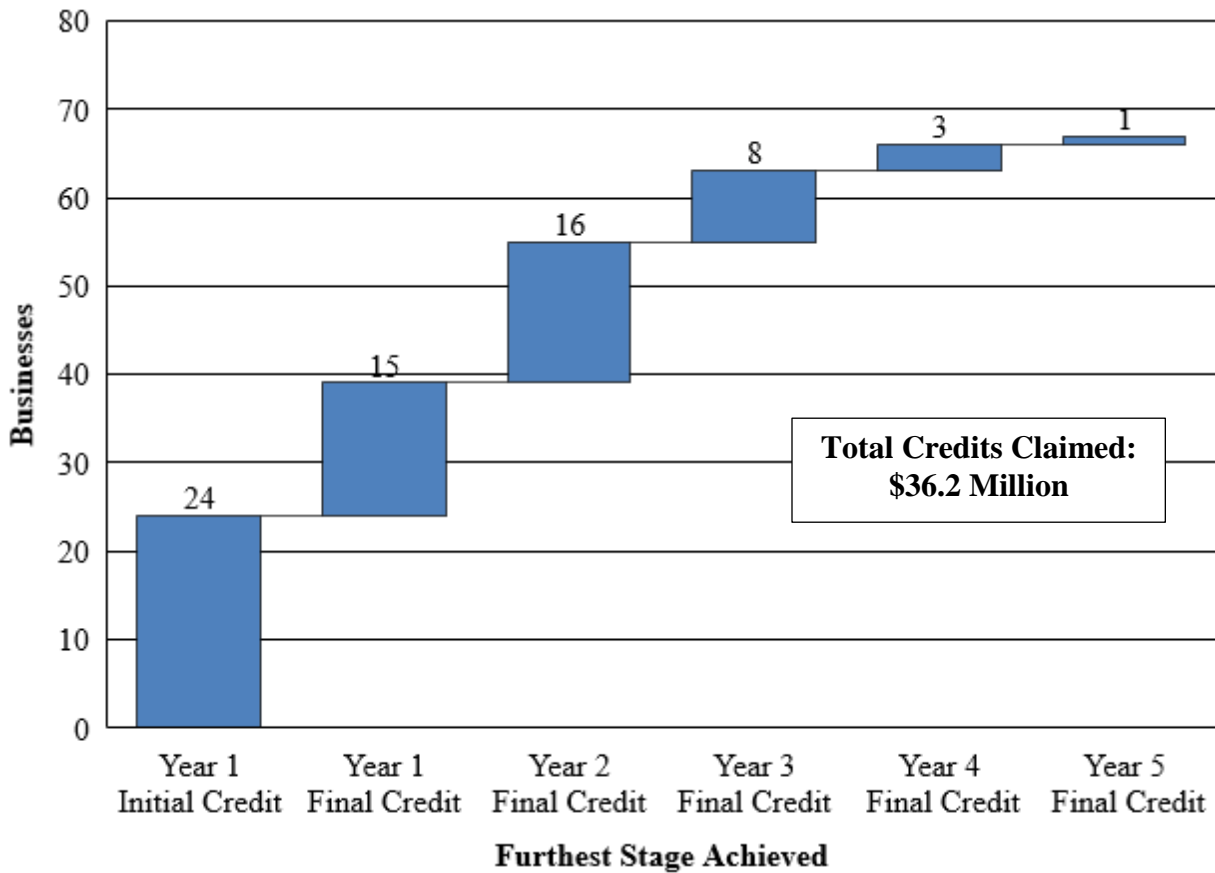
The fiscal 2025 allowance includes \$37.5 million for the More Jobs for Marylanders Income Tax Credit Reserve Fund, an increase of 10.4% over the fiscal 2024 working appropriation.

Program Activity

The first step for a company to participate in the program is to submit a notice of intent (NOI). Once a company submits an NOI, the company must, within 1 year, start hiring the eligible positions and must fill the minimum number of required positions within 1 year of the first hire. The company must also submit an application to enroll the company's project in the program. This application contains wage data that Commerce uses to estimate the tax credit amount that the company is likely to be awarded. After enrolling in the program, a company may submit an application for an initial tax credit certificate, which states the maximum credit amount that the company is entitled to for its first benefit year. Based on regulations adopted in April 2022, companies must be enrolled for 1 year before applying for an initial certificate. Once the last eligible position hired has been in place for 1 year, the company can apply for a final credit certificate, which determines the actual amount of the credit that the business can claim in its first benefit year. As companies are eligible for 5 to 10 years of incentives, the company must apply again for a new initial credit certificate and a new final credit certificate for each subsequent benefit year.

In fiscal 2023, 23 companies received 30 final certificates totaling \$14.0 million. As of January 2024, since inception, 67 businesses have been issued an initial tax credit certificate for at least the first year of benefits. Of these 67 businesses, 43 have progressed to claiming a final tax credit for at least one year of benefits, while 24 have not yet claimed a final tax credit. **Exhibit 5** shows how many businesses have progressed to receiving final tax credit certificates for the first and subsequent years of benefits. In total, 43 businesses have claimed \$36.2 million in income tax credits since the program’s inception.

Exhibit 5
Status of Businesses Claiming More Jobs for Marylanders Income Tax Credits
As of January 2024

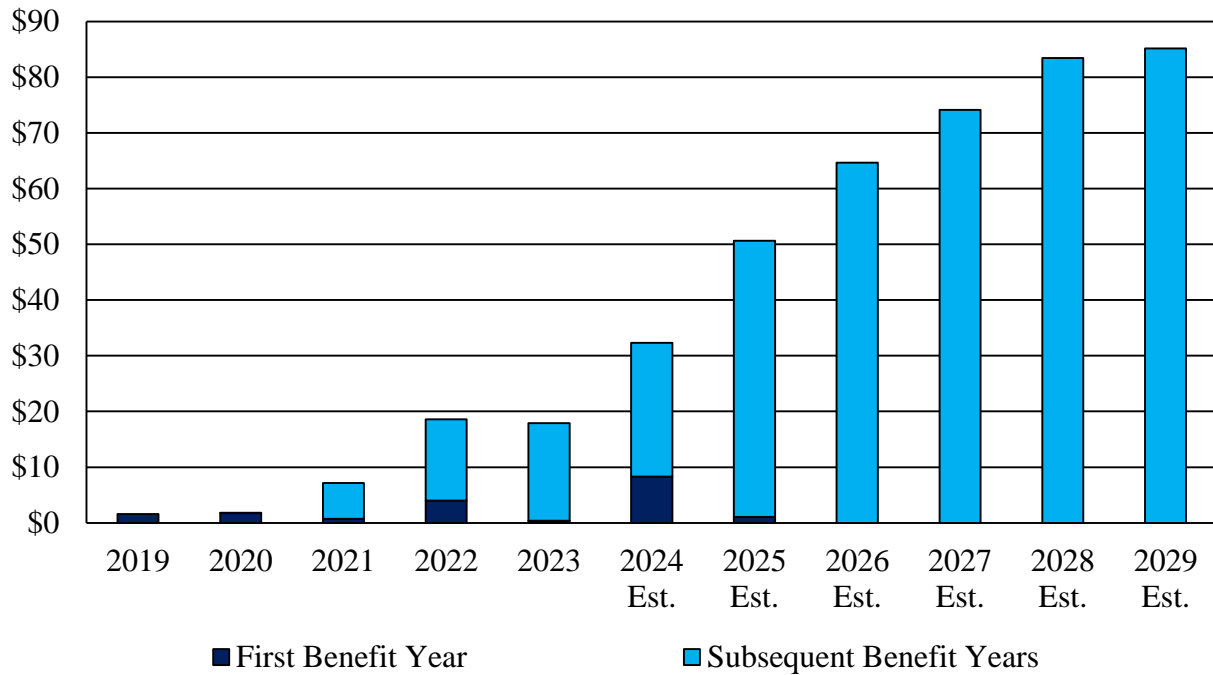


Source: Department of Commerce

Projected Growth

Program activity is expected to expand significantly in future years. Since qualifying businesses can apply for up to 10 consecutive years of credits, program expenditures are likely to continue into the 2030s. **Exhibit 6** depicts the anticipated growth of the program, showing initial certificates reserved in fiscal 2019 through 2022 as well as estimates through fiscal 2029. Initial certificates represent the total amount of income tax credits a project may claim in a given year.

Exhibit 6
More Jobs for Marylanders Income Tax Credits – Initial Certificates
Fiscal 2019-2029 Est.
(\$ in Millions)



Source: Department of Commerce

The growth is due in part to the program taking several years to ramp up but also because projects tend to grow significantly between benefit years. These estimates contain significant uncertainty for several reasons, including that (1) the estimates only reflect data on companies that have already enrolled in the program and not on all companies in the pipeline and (2) a single large project enrolling in the program can have significant effects.

Program Funding

The More Jobs for Marylanders Income Tax Credit Reserve Fund provides a reserve from which Commerce can reimburse the General Fund for tax credits that companies claim under the program. The \$37.5 million for the fund in the fiscal 2025 allowance represents a 10.4% increase from the \$34.0 million provided in fiscal 2024. **Exhibit 7** shows appropriations to date for the fund through the fiscal 2025 allowance and the projected fund balance.

Exhibit 7
More Jobs for Marylanders Income Tax Credit Reserve Fund
Fiscal 2019-2025 Est.
(\$ in Millions)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Est.</u> <u>2024</u>	<u>Est.</u> <u>2025</u>
Starting Balance of							
Unencumbered Funds	\$0.0	\$7.4	\$12.6	\$7.4	\$0.8	\$15.0	\$16.7
Transfer from Sales and Use Tax Refund Reserve Fund				\$2.0			
Appropriation	\$9.0	\$7.0	\$2.0	9.5	\$30.0	\$34.0	\$37.5
Canceled Encumbrances				0.5	2.0		
Available Funds	\$9.0	\$14.4	\$14.6	\$19.4	\$32.9	\$49.0	\$54.2
 Encumbrances Based on Initial Tax Credit Certificates	 \$1.6	 \$1.8	 \$7.2	 \$18.6	 \$17.9	 \$32.3	 \$50.6
 End of Year Balance of							
Unencumbered Funds	\$7.4	\$12.6	\$7.426	\$0.8	\$15.0	\$16.7	\$3.6

Source: Department of Commerce, Department of Legislative Services.

Based on Commerce’s estimates of program activity, the fiscal 2025 allowance is sufficient to meet the program demand in fiscal 2025. However, additional funding will likely be needed in future years. As noted previously, the estimates of future program use are uncertain. The estimates represent the maximum amount of funding for which each project may qualify based on the initial certificate amount. To the extent that a company claims less than the maximum amount, the difference becomes available for Commerce to use to issue new initial certificates. The estimates also account for all projects that Commerce believes may potentially claim credits in certain fiscal years.

2. SMWOBA Increases Amount of Loans Settled

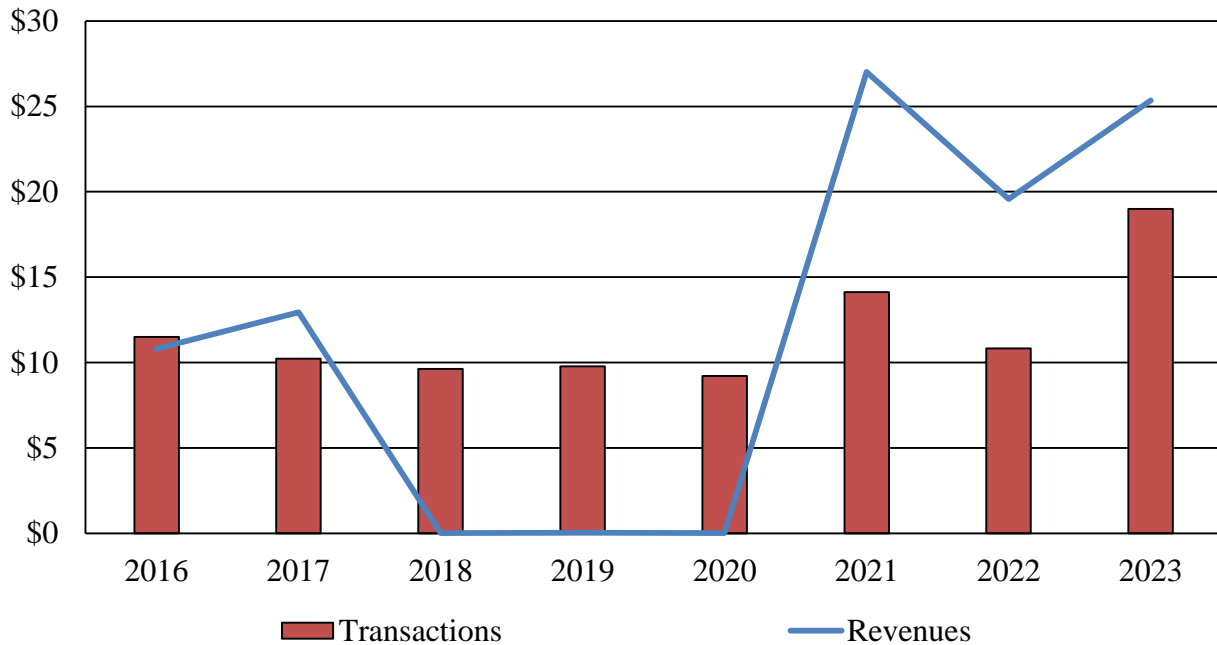
SMWOBA is designed to provide loans to minority-owned businesses, women-owned businesses, or businesses with no more than 500 employees that are located primarily in the areas of the State with gaming facilities. The fiscal 2025 allowance includes \$21.1 million in special funds for SMWOBA, a 1.7% increase compared to the fiscal 2024 working appropriation. SMWOBA receives funds from the operation of video lottery terminal (VLT) facilities and the Strategic Energy Investment Fund (SEIF).

Commerce selects fund managers according to criteria developed by the department and distributes SMWOBA funds to the fund managers, subject to approval by BPW. There is no statutory formula or direction as to how much each fund manager is to receive. Fund managers are required to allocate at least 50% of their funds, not including funds that originate from the SEIF, to businesses in jurisdictions and communities surrounding VLT facilities, referred to as “targeted areas.” While not defined in the law or by regulation, the department considers the targeted areas to be as follows: (1) a 10-mile radius around each of MGM National Harbor, Horseshoe, and Live! casinos; (2) for the Hollywood casino, Cecil, Harford, and Kent counties; (3) for the Ocean Downs casino, Somerset, Wicomico, and Worcester counties; and (4) for the Rocky Gap casino, Allegany, Garrett, and Washington counties.

VLT Revenues and Spending

Generally, 1.5% of VLT revenues are distributed to SMWOBA, and available funding for SMWOBA has grown dramatically since the program’s inception. Chapter 757 of 2019 requires that a total of \$7.0 million be transferred from the SEIF to SMWOBA from fiscal 2021 to 2028; the fiscal 2025 SMWOBA allowance includes \$1.2 million in funding from the SEIF. As shown in **Exhibit 8**, funding coming into the program has typically exceeded what fund managers have been able to distribute via transactions.

Exhibit 8
SMWOBA Transactions and Revenues
Fiscal 2016-2023
(\$ in Millions)



Source: Department of Commerce

Revenues increased 29% in fiscal 2023 to a total of \$25.3 million. Fund managers increased the total value of transactions in fiscal 2023 to \$19.0 million, a 75% increase compared to fiscal 2022. Despite the increase in transactions, however, the value of funds distributed remained lower than the revenue received. Commerce plans to issue a request for proposals for new fund managers in fiscal 2025 in hopes of increasing the pace of distributing funds and most recently added a fund manager in fiscal 2022. In fiscal 2023, Commerce also transferred \$1 million from the VLT fund to the Maryland Nonprofit, Interest-Free, Micro Bridge Loan Account, a fund that provides bridge loans to nonprofit organizations.

Businesses Receiving Loans

In fiscal 2023, SMWOBA fund managers settled 152 loans with a total value of \$19.0 million. Seventy-one percent of the funds went to businesses in areas surrounding VLT facilities, exceeding the statutory requirement of 50%. Of the loans made, 38% went to minority-owned businesses, 36% went to women-owned businesses, 20% went to nonminority-owned small businesses, and 6% went to veteran-owned businesses.

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Since the program’s inception, fund managers have settled \$108.9 million across 1,067 transactions. Of that, about 5%, or \$5.3 million, have been written off as unpaid. Given that the fund is intended to make higher-risk transactions to businesses, Commerce reports that this is an excellent charge off rate and indicates that the portfolio could tolerate more risk. Commerce reports that it is working with fund managers to develop more flexible underwriting strategies to ensure access to capital for more socially and economically disadvantaged businesses.

Legislation Would Allow for Grants along with Loans

SB 215 and HB 26 are departmental bills that would allow fund managers to issue grants in addition to loans to qualified applicants. Commerce has said that offering grants as well as loans could encourage more businesses to participate in the program. **Commerce should comment on the increase in participation that it would expect with the ability to provide grants.**

New Metrics Added for SMWOBA

Commerce has added new Managing for Results (MFR) metrics to track its performance in distributing SMWOBA funding and conducting outreach to eligible businesses. The SMWOBA program is discussed further in the Key Observations section of this analysis. Beginning with the fiscal 2025 submission, Commerce’s MFR submission includes metrics on the number of approved loans in the program, overall and to minority-, women-, and veteran-owned businesses specifically; the amount of capital provided; reported new and retained jobs; and direct and group outreach conducted to minority- and women-owned businesses. **Exhibit 9** shows the new MFR metrics and available data. The numbers reported in the MFR refer to approved transactions, which differ from the number of settled transactions. Thus, the numbers in this exhibit may differ from numbers elsewhere in this analysis. The numbers of new and retained jobs are reported by the fund managers.

Exhibit 9
SMWOBA Performance Metrics
Fiscal 2019-2023

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Approved Loans in the VLT Program	73	77	242	161	178
Approved Loans to Minority-owned, Women-owned, and Veteran-owned Businesses in the VLT Program	41	54	178	86	132
Amount of Capital Provided to Businesses through the VLT Program (\$ in Millions; Approved Loans)	\$11.6	\$10.2	\$14.8	\$15.6	\$23.8
At-risk/Retained Jobs Due to the VLT Program	462	432	862	1,421	1,191
New Jobs Due to the VLT Program	491	463	479	338	947
Direct Outreach to Minority- and Women-owned Businesses	n/a	n/a	277	304	421
Group Outreach to Minority- and Women-owned Businesses	n/a	n/a	8	12	26

SMWOBA: Small, Minority, and Women-Owned Businesses Account

VLT: Video Lottery Terminals

Note: The VLT program is the primary source of funding for SMWOBA.

Source: Department of Budget and Management

Operating Budget Recommended Actions

1. Add the following language:

Provided that \$96,494 of general funds, \$30,792 of special funds, and \$2,899 of federal funds of this appropriation made for the purpose of personnel expenditures shall be reduced to increase the turnover expectancy. The Department of Commerce is authorized to allocate this reduction across the agency's programs.

Explanation: This action adds language to reduce personnel expenditures in order to increase the turnover rate for existing positions within the Department of Commerce from 4.89% to 5.43%, the same level as fiscal 2024.

2. Amend the following language in the general fund appropriation:

, provided that this appropriation shall be reduced by \$1,000,000 contingent upon the enactment of legislation to eliminate the funding mandate for the Business Telework Assistance Grant Program as established under Sections 5-1701 and 5-1702 of the Economic Development Article.

Explanation: This is a technical amendment to align the wording of the contingent language in the budget bill with SB 473 and HB 582 as introduced.

Updates

1. Sunny Day Fund Award to United Safety Technology Corp.

In response to language restricting funds in the fiscal 2024 budget, Commerce submitted notification on October 12, 2023, regarding the planned distribution of \$2 million in fiscal 2024 from the Sunny Day Fund to USTC. Language in the fiscal 2024 Budget Bill required Commerce to submit notification of the planned distribution at least 30 days in advance to allow the Legislative Policy Committee (LPC) an opportunity to review and comment.

The \$2 million disbursement, represented in the fiscal 2024 special fund appropriation, is the first installment of a planned \$6 million total award for USTC. The total award is to be distributed in three \$2 million installments in fiscal 2024, 2026, and 2028. The award is in the form of conditional loans that can be forgiven if the company meets certain employment and project spending benchmarks. The Sunny Day funds will assist in funding the construction of and equipping of a nitrile glove manufacturing facility in the former Bethlehem Steel facility at the Tradepoint Atlantic Development in Baltimore County.

Appendix 1
2023 Joint Chairmen’s Report Responses from Agency

The 2023 *Joint Chairmen’s Report* (JCR) requested that Commerce prepare two reports. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Report on Historic Ships in Baltimore:*** Historic Ships in Baltimore, run by the Living Classrooms Foundation, maintains and provides historical interpretation for the U.S. Sloop-of-War Constellation, U.S. Coast Guard Cutter WHEC-37, U.S. Submarine Torsk, Lightship 116 Chesapeake, and Seven Foot Knoll Lighthouse. Prior to the COVID-19 pandemic, the Historic Ships attracted an average of 253,000 visitors per year, with about half of them coming from out-of-state. Visitor numbers have rebounded since the pandemic, with 226,524 people visiting in calendar 2022. General programs are the most popular, with the Pirate/Chessie boats a close second. Commerce was not able to obtain reliable revenue data from Living Classrooms. Average annual capital and maintenance costs are \$3.4 million, and operational and education programs are about \$1.7 million annually.
- ***Sunny Day Fund Notification:*** In response to language restricting funds in the fiscal 2024 appropriation, Commerce provided notification prior to a distribution from the Sunny Day Fund, and LPC authorized the release of funds effective November 14, 2023. Additional information on this response is included in the Updates section of this analysis.

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	December 19, 2017 – January 31, 2022
Issue Date:	December 2023
Number of Findings:	5
Number of Repeat Findings:	2
% of Repeat Findings:	40%
Rating: (if applicable)	n/a

Finding 1: Commerce did not have an effective process to ensure that Maryland E-Innovation Fund recipients secured and deposited required private funding (donations), and that the related expenditures were made for qualified purposes.

Finding 2: Commerce did not have sufficient controls over the transfer of funds from the SMWOBA to fund manager accounts, as well as the subsequent disbursement of those funds by managers.

Finding 3: Commerce had not established adequate procedures and controls over the award and disbursement of Grants for Organizations program grants under the Maryland State Arts Council grants.

Finding 4: Redacted cybersecurity-related finding.

Finding 5: Redacted cybersecurity-related finding.

*Bold denotes item repeated in full or part from preceding audit report.

**Appendix 3
Object/Fund Difference Report
Department of Commerce**

<u>Object/Fund</u>	<u>FY 23 Actual</u>	<u>FY 24 Working Appropriation</u>	<u>FY 25 Allowance</u>	<u>FY 24 - FY 25 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	188.00	189.00	208.00	19.00	10.1%
02 Contractual	31.90	38.40	26.40	-12.00	-31.3%
Total Positions	219.90	227.40	234.40	7.00	3.1%
Objects					
01 Salaries and Wages	\$ 24,197,612	\$ 25,299,365	\$ 28,279,551	\$ 2,980,186	11.8%
02 Technical and Special Fees	2,029,306	2,307,672	1,581,004	-726,668	-31.5%
03 Communication	216,443	324,713	305,713	-19,000	-5.9%
04 Travel	820,443	736,622	715,332	-21,290	-2.9%
06 Fuel and Utilities	18,086	18,203	18,203	0	0%
07 Motor Vehicles	246,419	356,474	302,625	-53,849	-15.1%
08 Contractual Services	18,464,836	18,000,404	17,978,329	-22,075	-0.1%
09 Supplies and Materials	131,743	242,174	236,174	-6,000	-2.5%
10 Equipment – Replacement	34,089	34,900	34,900	0	0%
11 Equipment – Additional	22,636	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	241,202,116	174,818,929	135,155,187	-39,663,742	-22.7%
13 Fixed Charges	2,529,584	1,851,052	1,771,989	-79,063	-4.3%
14 Land and Structures	39,286,268	61,460,000	56,160,000	-5,300,000	-8.6%
Total Objects	\$ 329,199,581	\$ 285,450,508	\$ 242,539,007	-\$ 42,911,501	-15.0%
Funds					
01 General Fund	\$ 184,155,422	\$ 193,792,625	\$ 146,325,008	-\$ 47,467,617	-24.5%
03 Special Fund	131,771,530	79,754,820	76,825,680	-2,929,140	-3.7%
05 Federal Fund	13,272,629	11,903,063	19,388,319	7,485,256	62.9%
Total Funds	\$ 329,199,581	\$ 285,450,508	\$ 242,539,007	-\$ 42,911,501	-15.0%

Note: The fiscal 2024 working appropriation does not include deficiencies. The fiscal 2025 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.

**Appendix 4
Fiscal Summary
Department of Commerce**

<u>Program/Unit</u>	<u>FY 23 Actual</u>	<u>FY 24 Wrk Approp</u>	<u>FY 25 Allowance</u>	<u>Change</u>	<u>FY 24 - FY 25 % Change</u>
01 Office of the Secretary	\$ 1,737,169	\$ 1,772,557	\$ 1,917,826	\$ 145,269	8.2%
02 Office of Policy and Research	2,184,511	1,687,221	1,621,128	-66,093	-3.9%
03 Office of the Attorney General	1,430,355	1,633,832	1,889,191	255,359	15.6%
08 Division of Administration and Technology	6,634,606	7,000,392	7,218,189	217,797	3.1%
10 Maryland Marketing Partnership	2,153,539	2,500,950	2,500,950	0	0%
01 Division of Business and Industry Sector Development	1,115,527	871,117	901,980	30,863	3.5%
03 Maryland Small Business Development Financing Authority	1,749,044	2,548,375	2,548,375	0	0%
04 Office of Business Development	5,445,509	45,044,570	4,559,247	-40,485,323	-89.9%
05 Office of Strategic Industries and Entrepreneurship	6,752,794	14,824,439	14,737,848	-86,591	-0.6%
07 Partnership for Workforce Quality	993,579	1,000,000	1,000,000	0	0%
08 Office of Finance Programs	4,163,402	4,419,581	4,637,299	217,718	4.9%
09 Maryland Small Business Development Financing Authority	7,134,982	12,360,000	19,360,000	7,000,000	56.6%
10 Office of International Investment and Trade	5,992,058	5,106,966	5,475,125	368,159	7.2%
11 Maryland Not-For-Profit Development Fund	435,000	450,000	450,000	0	0%
12 Maryland Biotechnology Investment Tax Credit	12,000,000	12,000,000	12,000,000	0	0%
13 Office of Military Affairs and Federal Affairs	1,753,271	3,688,315	3,765,578	77,263	2.1%
15 Small, Minority, and Women-Owned Business Investment Account	16,404,503	20,745,496	21,107,536	362,040	1.7%
16 Economic Development Opportunity Fund	0	2,000,000	0	-2,000,000	-100.0%
18 Military Personnel and Service-Disabled Veteran Loan	112,000	300,000	300,000	0	0%
19 Innovation Investment Incentive Tax Credit Program	0	2,000,000	2,000,000	0	0%
20 Maryland E-Nnovation Initiative	11,582,825	8,500,000	8,500,000	0	0%

<u>Program/Unit</u>	<u>FY 23 Actual</u>	<u>FY 24 Wrk Approp</u>	<u>FY 25 Allowance</u>	<u>Change</u>	<u>FY 24 - FY 25 % Change</u>
21 Maryland Economic Adjustment Fund	200,000	1,000,000	700,000	-300,000	-30.0%
23 Maryland Economic Development Assistance Authority	16,034,350	17,500,000	17,500,000	0	0%
24 More Jobs for Marylanders Tax Credit Reserve Fund	30,030,530	33,971,753	37,500,000	3,528,247	10.4%
27 Business Telework Assistance Grant Program	977,090	1,000,000	1,000,000	0	0%
28 Non-Profit Shared Services Support Program	5,000,000	0	0	0	0%
29 Rural Maryland Economic Development Program	50,000,000	0	0	0	0%
30 Regional Institution Strategic Enterprise Zone Program	0	750,000	750,000	0	0%
31 Child Care Capital Support Revolving Loan Fund - Capital Appropriation	10,459,936	10,000,000	0	-10,000,000	-100.0%
32 Western Maryland Economic Future Investment Program - Capital Appropriation	20,000,000	10,000,000	10,000,000	0	0%
33 Maryland New Start Microloan Program	0	300,000	300,000	0	0%
01 Office of the Assistant Secretary	392,419	375,840	383,054	7,214	1.9%
02 Office of Tourism Development	19,584,558	6,910,285	6,810,770	-99,515	-1.4%
03 Maryland Tourism Development Board	12,807,439	15,503,600	15,493,600	-10,000	-0.1%
04 Office of Marketing and Communications	2,381,417	2,406,557	2,370,848	-35,709	-1.5%
05 Maryland State Arts Council	68,652,168	32,378,662	31,040,463	-1,338,199	-4.1%
08 Preservation of Cultural Arts Program	1,605,000	1,300,000	1,300,000	0	0%
09 Baltimore Symphony Orchestra	1,300,000	1,600,000	900,000	-700,000	-43.8%
Total Expenditures	\$ 329,199,581	\$ 285,450,508	\$ 242,539,007	-\$ 42,911,501	-15.0%
General Fund	\$ 184,155,422	\$ 193,792,625	\$ 146,325,008	-\$ 47,467,617	-24.5%
Special Fund	131,771,530	79,754,820	76,825,680	-2,929,140	-3.7%
Federal Fund	13,272,629	11,903,063	19,388,319	7,485,256	62.9%
Total Appropriations	\$ 329,199,581	\$ 285,450,508	\$ 242,539,007	-\$ 42,911,501	-15.0%

Note: The fiscal 2024 working appropriation does not include deficiencies. The fiscal 2025 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.