Maryland General Assembly
Joint Committee on the Management of Public Funds

2013 Membership Roster

Senator Verna Jones-Rodwell, Senate Chair (Presiding)
Delegate Ana Sol Gutiérrez, House Chair

Senators

Jennie M. Forehand

Richard S. Madaleno, Jr.

Edward R. Reilly

Delegates

Guy Guzzone

Carolyn J. B. Howard

Andrew A. Serafini

Committee Staff

Trevor S. Owen

Dana K. Tagalicod

THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401-1991

Joint Committee on the Management of Public Funds

December 20, 2013

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee

Ladies and Gentlemen:

The Joint Committee on the Management of Public Funds is pleased to present this report on its activities undertaken during the 2013 interim. The Joint Committee met two times and was briefed on several relevant topics, including economic development and small business financing opportunities in Maryland, the activities of the Comptroller's and Treasurer's offices, and audits of local governments. A third meeting was scheduled on the oversight and management of major State-funded projects by the Maryland Stadium Authority and the Maryland Economic Development Corporation; however, the meeting was cancelled due to inclement weather. The Joint Committee plans to hold a meeting on this topic during the 2014 interim.

A summary of the activities of the Joint Committee is appended to this letter. The Joint Committee greatly appreciates the assistance of the many individuals who participated in the activities of the Joint Committee during the 2013 interim.

Respectfully submitted,

Senator Verna Jones-Rodwell Senate Chair (Presiding)	Delegate Ana Sol Gutierrez House Chair

VLJ:ASG/DKT:TSO/arr

Enclosure

cc: Mr. Karl S. Aro
Ms. Lynne B. Porter
Mr. Warren G. Deschenaux

Joint Committee on the Management of Public Funds
2013 Interim Report

The following topics were covered during the two meetings held by the Joint Committee on the Management of Public Funds during the 2013 interim.

(1) October 9, 2013 Meeting

Review of the State's Public Economic Development and Small Business Financing Programs

The Joint Committee invited representatives from the following four State organizations which are primarily responsible for the investment of State public funds to brief its members on economic development and small business financing programs in Maryland.

Department of Business and Economic Development

Greg Cole, the Director of Finance Programs for the Department of Business and Economic Development (DBED) briefed the committee about DBED's role in providing financing- and incentive-based solutions for economic development projects throughout the State to maximize job creation, retention, and capital investment.

The Maryland Economic Development Assistance Authority Fund (MEDAAF) is DBED's largest aid program. MEDAAF provides below-market, fixed-rate financing to growth industry sector businesses that are locating or expanding in priority funding areas of the State. MEDAAF provides assistance to strategic economic development initiatives, local economic development opportunities, regional or local revolving loan funds, and special purpose loans. MEDAAF also provides direct assistance to local jurisdictions through the county economic development offices.

DBED mentioned there are positive signs the State is moving out of the recent recession, as fiscal 2013 marked a rebound in program activity for MEDAAF with 28 closed transactions in the year (its largest total since fiscal 2009). MEDAAF's economic impact return-on-investment over a five-year period is approximately $10.59 for each dollar invested.

One of the co-chairs asked if statistics are being tracked to provide more information as to the types of jobs and demographics that make up the presented total retained and created jobs figure of 19,558. DBED mentioned that it tracks only the number of jobs, but it does not track demographic information. The Attorney General's Office has advised DBED that it may request racial and other information about the individuals or companies who apply for assistance; however, to avoid the appearance of misuse, the applicant must be informed that providing the demographic information is voluntary. Since applicants are not mandated to provide demographic information, many do not provide this information. The members discussed that the Joint Committee should revisit this issue to ensure that the State is receiving adequate information from program participants to monitor whether State diversity and equity goals are being achieved in agencies that are using public funds.

One of the co-chairs asked about a task force that studied diversity in the workforce. DBED reported that they believe this was the Task Force on the Minority Business Enterprise Program and Equity Investment Capital that was originally established in 2008, was reauthorized in 2011 and was required to provide a report on or before December 1, 2011. Staff will follow up and provide the Joint Committee with a status report on the implementation of the report recommendations, after which legislation potentially may be recommended.

DBED briefly discussed the benefits of the Maryland Industrial Development Financing Authority (MIDFA) and the Economic Development Opportunities Program (Sunny Day Fund). MIDFA provides financing support to manufacturing, industrial and technology businesses located in or moving to the State. MIDFA also stimulates private sector financing of economic development through the issuance of bonds and providing insurance which serves to increase access to capital for small and mid-sized companies. The Sunny Day Fund provides loans, grants or investments to assist in the retention and expansion of existing business, or the establishment and attraction of new business in the State. Both MIDFA and the Sunny Day Fund are primarily self-sustaining funds that rarely receive general fund appropriations.

The Maryland Venture Fund (MVF) serves to make equity investments in new state enterprises, and has been enhanced to target investments in early-stage, high-technology companies experiencing difficulties attracting private sector investment dollars. The fund's activities are provided through five sub-programs: The Enterprise Investment Fund, The Challenge Investment Program, The Enterprise Venture Capital Limited Partnership Fund, Maryland/Israel Development Fund, and FIPS Certification Grant Program. Since 2009, MVF has participated in 104 loans and investments totaling over $43,000,000. These loans and investments have lead to an additional co-investment of $556,000,000 into State-based companies with 1,078 retained jobs, and 1,366 new jobs created.

One of the Joint Committee members requested a list of the international companies that DBED has helped relocate. Subsequently, DBED provided a list of 17 companies that were successfully attracted to Maryland during fiscal 2013 and fiscal 2014.

Stanley Tucker, the Executive Director of the Maryland Small Business Development Financing Authority (MSBDFA), briefed the committee about MSBDFA and its financial programs. MSBDFA was originally created in 1978 to promote the viability and expansion of businesses owned by economically or socially disadvantaged entrepreneurs. MSBDFA was later expanded to include any small business that does not meet the credit criteria of financial institutions and are unable to obtain adequate financial assistance on reasonable terms.

MSBDFA has four programs that provide lines of credit, long-term loans, loan guarantees, letters of credit, contract surety bonds, subordinated debt, and equity financing. Over the last five years, MSBDFA has closed 114 transactions which served to create 394 jobs and retain 1,008 jobs.

Mr. Tucker briefly discussed the Maryland Casino and Business Investment Fund (MCBIF) which is funded through 1.5% of all slot proceeds generated by State gaming venues to be used to fund small, minority and women-owned businesses. This fund was noted during the presentation as being instrumental in rescuing a minority business highlighted in a recent speech by President Obama.

Department of Housing and Community Development

Carol Gilbert, Assistant Secretary with the Department of Housing and Community Development (DHCD), briefed the committee on DHCD housing and community financing programs. The two main missions of DHCD are to finance housing opportunities and to revitalize communities. Ms. Gilbert manages the Division of Neighborhood Revitalization, which consists of State level programs, such as Neighborhood Business Works, and federal programs, such as the Community Development Block Grants. Annually, $40 million is invested through DHCD's State and federal programs for community development.

Since 1997, Neighborhood BusinessWorks has financed $62 million in loans to 272 small businesses, which leveraged $222 million and created or sustained 6,269 jobs. Neighborhood BusinessWorks has a direct lending program that provides gap financing to new or expanding small businesses and nonprofit organizations in designated sustainable communities throughout the State.

Maryland Agricultural and Resource-Based Industry Development Corporation

Steve McHenry, the Executive Director of the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) briefed the Joint Committee about the role of MARBIDCO as it focuses on enhancing the sustainability and profitability of the State's agricultural- and resource-based industries. MARBIDCO helps bolster rural economies, provide locally produced food and fiber products, and preserve working farm and forest land. MARBIDCO is an independent public instrumentality that is required by law to become self-sustaining after fiscal 2020 with respect to its core rural business assistance activities.

Since MARBIDCO became operational in Spring 2007, it has provided financing to 248 farm and rural business projects located in 22 counties. MARBIDCO's investment in rural business lending has also leveraged over $38.5 million in private commercial loan capital and has helped to create or retain approximately 1,876 full- and part-time jobs. MARBIDCO mentioned the average age of a Maryland farmer is 57 years old, and efforts are continually being made by the agency to attract new farmers.

Department of Labor, Licensing, and Regulation

Mark Kaufman, the Commissioner of Financial Regulation in the Department of Labor, Licensing, and Regulation (DLLR) briefed the committee on the role of DLLR in regulating financial institutions in Maryland. DLLR regulates 60 depository institutions, such as community banks and credit unions, and also regulates approximately 11,000 nondepository companies, such as mortgage lenders and debt collection agencies. DLLR's role with the nondepository companies includes licensing, examination, complaint response, and enforcement.

Many community banks have a focus on small business lending. Small community banks with less than $1 billion in assets average 28% of their business in small business lending compared to only 3% for large national banks with more than $1 trillion in assets.

Conclusions and Recommendations: At this time, there are no recommendations for legislation sponsored by the Joint Committee to address the issues discussed during the presentations. The Joint Committee will continue to monitor organizations that are responsible for financial investment of public funds, such as DBED, DHCD and MARBIDCO, and will continue to monitor their impact on economic development activities in the State. The Joint Committee recommends more rigorous collection and standardization of data reporting to better monitor the economic impact of these programs.

(2) October 22, 2013 Meeting

Comptroller's Office – Update of Activities

Comptroller Peter Franchot, Deputy Comptroller David Roose, and Jeff Kelly, Director of Field Enforcement, provided an update on the activities of the Comptroller's Office. During 2013, the Comptroller's Office again focused on providing effective and efficient services to taxpayers along with tax fairness and fiscal responsibility.

One way in which the Comptroller's office provides effective and efficient services is by actively encouraging taxpayers to file electronic tax returns. Out of 3 million tax return filed in calendar year 2012, 2.3 million were filed electronically. With electronic filing, taxpayers receive their returns in three business days and the State saves $1.60 on each return. Individual Maryland taxpayers can file, free of charge, electronically on the Comptroller's website using the iFile program. Maryland businesses can file electronically on the Comptroller's website using bFile program.

Annually, the Comptroller's Office works diligently to reunite unclaimed property with its owner and $54.3 million was returned to owners in fiscal 2013. Also, over the last six years, the Comptroller's Office has collected approximately $3 billion in delinquent taxes. Through the Comptroller's Office's partnership with the U.S. Department of Treasury, $70 million in federal vendor payments has been intercepted to satisfy State income tax liabilities.

The Comptroller places a high priority on customer service and he calls the employees who work in his office "taxpayer employees." His standard is that each taxpayer should receive a "prompt, respectful call back" even though the taxpayer might not receive the answer he or she wanted. The Comptroller has created a new ombudsman's office that is dedicated to assisting taxpayers with navigating government channels and resolving their issues swiftly. The Comptroller said he emphasizes customer service because he wants Maryland citizens to know that we appreciate them living in our state.

The Comptroller's Office has continued its efforts to stop cigarette smuggling and has arrested 170 individuals and confiscated 2.4 million contraband cigarettes. There was some discussion about whether the alcohol tax increase has resulted in additional alcohol smuggling. The Comptroller reported that his office has seen some alcohol smuggling into Maryland from Pennsylvania and Delaware; however, cigarette smuggling is much more prevalent and lucrative. The Comptroller observed that although the alcohol tax was increased, the State is generating less revenue overall through alcohol sales. Although the State is bringing in additional revenue on beer sales, the State is bringing in less revenue in liquor sales.

The Comptroller mentioned that if the Marketplace Fairness Act had been enacted, the State would have received $175 million in revenue through the internet sales tax. The Comptroller reported that Amazon is in favor of the legislation and plans to negotiate with individual states.

One of the co-chairs commended the Comptroller for highlighting the availability of Maryland Vehicle Administration (MVA) tax certifications on the Comptroller's Office Web site. Under the Maryland Highway Safety Act of 2013, individuals who were previously unable to obtain a drivers' license, ID card or moped operators' permit can now obtain these documents in Maryland. Individuals must provide certain documentation to the Comptroller's Office and the office will issue a MVA tax certification, which the individual takes to the MVA to obtain a driver's license. The co-chair also commended the Comptroller for providing both online and walk-in services for MVA tax certifications.

One of the Joint Committee members asked about the potential for a shortfall of $500 million in debt service revenues by fiscal 2017 and how that might be covered. The Comptroller stated that he does not believe the State is in the position to recommend a property tax increase; therefore, general funds will likely have to be transferred to cover the debt service shortfall.

Conclusions and Recommendations: The Joint Committee commends the Comptroller's Office on providing effective and efficient services to taxpayers with a high priority on customer service. The Joint Committee also commends the Comptroller's Office on its continued focus on tax fairness and fiscal responsibility. The Joint Committee will continue to monitor the activities of the Comptroller's Office.

State Treasurer's Office – Update of Activities

State Treasurer Nancy Kopp, Chief Deputy Treasurer Bernadette Benik, and Director of Debt Management Amber Teitt, provided an update on the activities of the Treasurer's Office.

Treasurer Kopp reported that in July 2013 all three rating agencies affirmed the State's AAA bond rating. Maryland is one of only ten states in the nation with AAA ratings from all three rating agencies, with Alaska and Texas becoming AAA rated states this year. Since 2011, Moody's had assigned a negative outlook to Maryland's general obligation bonds because of Maryland's indirect linkages to the weakened credit profile of the federal government. However, in July 2013, Moody's revised its outlook on Maryland's general obligation bonds from negative to stable because Moody's also returned the federal government to a stable outlook.

There is general consensus among the rating agencies that Maryland's debt policies, fiscal management, and economy are all credit positives; however, the State's debt burden and pension funding are concerns. All three rating agencies point to the State's history of strong, sound financial management and the State's debt affordability guidelines and rapid amortization of debt are credit strengths and help offset concerns about the State's debt burden. Standard and Poor's states that the Capital Debt Affordability Committee (CDAC) and the debt affordability process has a positive stabilizing effect on the State's debt profile.

Fitch ratings noted that "[a]lthough pension funded ratios are weak, the state has undertaken multiple reforms to return to full funding over time." All three rating agencies noted the pension reforms enacted during the 2011 session, the teacher pension cost sharing enacted during the 2012 special session, and the phase-out of the corridor funding method enacted during the 2013 session.

In September 2013, the CDAC recommended $1,160 million for new general obligation bond authorizations to support the fiscal 2015 capital program. The CDAC's planning assumptions project $1,170 for fiscal 2016, $1,180 for fiscal 2017, $1,275 for fiscal 2018, $1,315 for fiscal 2019, and decreasing to $1,280 for fiscal 2020. With these debt levels, the debt affordability ratios remain within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues. The Treasurer commented that the CDAC made its recommendation based on what is affordable; however, the General Assembly might have a different priority and might authorize a different amount.

The next general obligation bond sale is planned for early March 2014 and is projected to total $500 million.

Under current law, the Treasurer's Office is restricted to certain types of investments; however, the Treasurer's Office is currently gathering information to consider expanding the list of eligible investments the Treasurer's Office can make that will ensure that the State's money continues to be prudently invested in the highest rated, dollar dominate, full faith and credit obligations. After further research, if the Treasurer's Office believes the list of eligible investments should be expanded, the Treasurer's Office is likely to present a legislative proposal to the Joint Committee during the 2014 interim.

In response to a question from a Joint Committee member about the bankruptcy filing of Detroit, the Treasurer stated that municipal corporations can declare bankruptcy only in a limited number of states and Maryland is not one of the states where it is allowed.

In response to a question from a Joint Committee member about the CDAC's debt affordability ratios and whether the projected amount of property tax revenues would be a better measure, the Treasurer responded that debt service is funded through other revenue sources in addition to property tax revenues. Many other states have this same practice.

Dean Kenderdine, Executive Director of the State Retirement Agency, presented information on the new Governmental Accounting Standards Board (GASB) standards that affect the State Retirement and Pension System beginning in fiscal 2014 (Statement 67) and the

State beginning in fiscal 2015 (Statement 68). The new GASB standards divorce pension system funding and financial reporting. Previously, the focus was on whether the State was making its "Actuarially Required Contribution" (ARC) payments each year; however, under the new GASB standards, instead the focus will be on the size and growth of the "Net Pension Liability" (NPL). The NPL is similar to the "Unfunded Actuarial Liability" (UAAL); however, while the UAAL presently appears only in the footnotes of the State's balance sheet, the NPL will be reported on the balance sheet. The purpose of using the NPL is to provide transparency, consistency, and comparability among systems.

Both the UAAL and the NPL compare the present value of the total pension liability to the assets available to pay that liability; however, the UAAL is discounted at the plan's assumed rate of return (7.70% in Maryland) and the assets are smoothed while the NPL may be discounted using a "blended rate" and assets are valued at fair market value. These differences will likely result in the much more volatility in the NPL than the UAAL.

The plan uses the assumed rate of return for the discount rate up to the point the plan no longer has assets to pay benefits and then the remaining liability must be discounted using a high quality municipal bond rate, which is a much lower rate. This is the "blended rate." If the new GASB standards had been in effect for fiscal 2013, the State Retirement and Pension System would not have needed to use the blended rate because the system has sufficient assets to pay current liabilities and the system is on a path to be fully funded in 25 years. Although the new GASB requirements significantly increase the appearance of the liability for accounting purposes, the actual liability amount used to determine State contributions will not change.

Conclusions and Recommendations: The Joint Committee commends the State Treasurer's Office for its good work. The Joint Committee is pleased that the State continues to maintain its AAA bond rating and is pleased that Moody's revised its outlook on Maryland's general obligation bonds from negative to stable in July 2013. The Joint Committee will continue to monitor the activities of the State Treasurer's Office and will continue to monitor the implementation of the new GASB standards.

Office of Legislative Audits – Review of Local Government Audit Reports

Robert Garman, Assistant Director of Quality Assurance in the Office of Legislative Audits (OLA), presented information on the desk reviews of local government audits for fiscal 2012. Out of 193 local government audit reports, 64 contained some type of noncompliance with generally accepted accounting principles and auditing standards. The number of local governments with areas of noncompliance decreased slightly compared to the previous year.

OLA's report summarized the most significant and frequent problem areas for the local governments. These problem areas include failing to file an audit report, failing to present the audit or financial statements in accordance with generally accepted auditing and accounting principles; failing to present all required statements; lacking adequate disclosures; and the issuance of qualified or adverse opinions by an auditor. Hyattsville had not filed an audit report for fiscal years 2011 and 2012 and Baltimore City, Deer Park, Fruitland, and Sharptown had not filed an audit report for fiscal year 2012. Baltimore City subsequently filed a fiscal year 2012 audit report in August 2013.

In addition, OLA's review disclosed areas of noncompliance with State law for 12 local governments that have unsecured cash deposits, which was a decrease from 16 the previous year. OLA's review also disclosed potential financial problems for four local governments. As of June 30, 2012, two local governments, Cumberland and Ridgely, had unrestricted general fund deficit balances and two local governments, Cecilton and Pocomoke City, had unfavorable trends or ratios.

OLA reported that a letter describing the areas of noncompliance with the audit guidelines was sent to each local government and its independent auditor. For areas of noncompliance with State laws and potential financial problems, OLA requests that the local governments provide written descriptions of the actions to be taken to eliminate the conditions, when appropriate. OLA then reviews and evaluates the responses to those. Additionally, as requested by the Joint Committee, when letters were sent to local governments regarding noncompliance with State laws and potential financial problems, copies of the letters were also to be sent to Joint Committee members and to the appropriate members of the Maryland General Assembly.

Conclusions and Recommendations: The Joint Committee commends OLA for its thorough review of local government audit reports. The Joint Committee continues to request that OLA promptly notify legislators of all unfavorable financial trends or audit report deficiencies affecting local governments within their jurisdictions.

Committee Sponsored Legislation

The Joint Committee was not asked to sponsor any legislation by either the Office of the Comptroller or the State Treasurer's Office for the 2014 legislative session. Additionally, due to the cancellation of the third interim Joint Committee meeting because of inclement weather, there is no other legislation being recommended at this time to address other issues discussed regarding the need to monitor the job creation and workforce diversity status of participants in the State's economic development and financing programs.