Maryland General Assembly
Joint Committee on the Management of Public Funds

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THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401-1991

Joint Committee on the Management of Public Funds

December 17, 2014

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 2014 interim in the conduct of its charge to oversee the general management of State public funds. The joint committee met three 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, audits of local governments, and oversight and management of major State-funded projects by the Maryland Stadium Authority and the Maryland Economic Development Corporation.

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 2014 interim.

Respectfully submitted,

Senator Verna Jones-Rodwell
Senate Chair

Delegate Ana Sol Gutiérrez
House Chair (Presiding)

VLJ:ASG/MBJ:TSO/arr

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

Joint Committee on the Management of Public Funds
2014 Interim Report

The Joint Committee on the Management of Public Funds held three meetings in Annapolis during the 2014 interim.

September 16, 2014 Meeting

Economic Development and Small Business Financing Programs

The joint committee invited representatives from the Department of Business and Economic Development, Maryland Small Business Development Financing Authority, Maryland Agricultural and Resource-Based Industry Development Corporation, the Department of Labor, Licensing, and Regulation, and the Department of Housing and Community Development to address the committee regarding their 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 2014 marked a rebound in program activity for MEDAAF with 30 closed transactions in the year, for a total of 115 closed transactions since fiscal 2010.

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, although the Sunny Day Fund has received special funds in recent years.

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-sections: The Enterprise Investment Fund, The Challenge Investment Program, The Enterprise Venture Capital Limited Partnership Fund, Maryland/Israel Development Fund, and the Federal Information Processing Standard (FIPS) Certification Grant Program. Since 2010, MVF has participated in 147 loans and investments totaling nearly $73.0 million. In addition, since 2012, InvestMaryland has directly invested nearly $17.0 million in over 30 Maryland companies leveraging an additional $161.0 million. Leveraging nine private sector dollars to every one invested by MVF, these investments have helped to create and retain over 2,250 jobs in Maryland.

One of the joint committee members asked about the failure rate of the MVF. DBED responded that the failure rate is above 80%; however, a 75% failure rate in the industry is considered to be a low failure rate. DBED noted that, even though the failure rate is above 80%, those ventures that do succeed can sometimes have a 10 or 20 fold return. A dialogue then ensued between committee members and DBED regarding the intricacies of MVF.

Conclusions and Recommendations: The joint committee is pleased with the reported accomplishments provided by DBED. The joint committee is also pleased with the thoroughness of DBED's report. The joint committee will continue to monitor DBED's financial investment and economic development activities.

Maryland Small Business Development Financing Authority

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 is 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. Since fiscal 2005, MSBDFA has closed 245 transactions which served to create 1,388 jobs and retain 2,777 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. Mr. Tucker stated that MSBDFA plans to request that funds from MCBIF be used for businesses outside of the 10-mile radius from certain casinos.

One of the co-chairs stated that MSBDFA should consider asking for a modification that relates to the sparseness of population rather than an extension of the radius. A general conversation regarding the geographic limitations of MCBIF ensued.

One of the co-chairs requested that MSBDFA provide the committee with year-to-year statistics, a strategic marketing plan, and data regarding the overhead of fund administration in MSBDFA's 2015 report.

Conclusions and Recommendations: The joint committee thanks MSBDFA for its presentation. The joint committee will continue to monitor MSBDFA's financial investment and economic development activities.

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 to bolster rural economies, provides locally produced food and fiber products, and preserves working farm and forest land. MARBIDCO is an independent public instrumentality that is required by law to become self-sustaining after fiscal 2021 with respect to its core rural business assistance activities.

Since MARBIDCO became operational in spring 2007, it has provided financing to 291 farm and rural business projects located in 22 counties. MARBIDCO's investment in rural business lending has also leveraged over $50.0 million in private commercial loan capital and has helped to create or retain approximately 2,231 full- and part-time jobs.

A member of the committee asked whether the number of full-time farmers is decreasing. Mr. McHenry responded that the percentage of full- and part-time farmers is proportionally the same; however, in regard to farm revenue, nationally 90% of farm revenue comes from off the farm. Mr. McHenry also noted that the number of female operated farms has increased from 12% to 19%. The same member then asked whether MARBIDCO anticipates any impact as a result of those farmers wanting to grow and/or process marijuana. Mr. McHenry responded that MARBIDCO has received several inquiries, but until the federal government removes marijuana from the list of schedule 1 narcotics, it will be difficult to finance such a project.

Conclusions and Recommendations: The joint committee is pleased with the reported accomplishments provided by MARBIDCO. The joint committee is also pleased with the thoroughness of DBED's report. The joint committee will continue to monitor MARBIDCO's financial investment and economic development activities.

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 BusinessWorks, 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 1996, Neighborhood BusinessWorks has financed $63.6 million in loans to over 320 small businesses, which leveraged $235 million and created or sustained 6,400 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.

Conclusions and Recommendations: The joint committee is pleased with the reported accomplishments provided by DHCD. The joint committee is also pleased with the thoroughness of DBED's report. The joint committee will continue to monitor DHCD's financial investment and economic development activities.

Department of Labor, Licensing, and Regulation

Keisha Whitehall Wolfe, the Acting Deputy Commissioner of the Office of 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 59 state-chartered depository institutions, such as community banks and credit unions, and also regulates approximately 13,000 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. DLLR discussed the Nationwide Mortgage Servicer Settlement, of which Maryland received approximately $1 billion in relief.

A discussion regarding the Nationwide Mortgage Servicer Settlement ensued. One of the committee members asked DLLR to explain how the $1 billion was allocated. DLLR, with the assistance of DHCD, explained that the majority of the settlement went to consumers as direct relief, as only $56 million in cash came directly to Maryland as a result of the Nationwide settlement. One of the co-chairs asked the panel how Maryland can be more accountable to the public with regard to the settlement. DHCD responded that Maryland's role was to help consumers be prepared to receive relief, noting that Maryland received a much larger part of the settlement as a result of consumer preparedness.

The joint committee then discussed Maryland's high foreclosure rate and the need for agencies to continue to develop programs to aid the citizens of Maryland.

Conclusions and Recommendations: The joint committee is pleased with the reported accomplishments provided by DLLR. The joint committee will continue to monitor DLLR's financial investment and economic development activities. The joint committee will continue to monitor DLLR's financial investment and economic development activities.

October 15, 2014 Meeting

Comptroller's Office – Update of Activities

Comptroller Peter Franchot and Deputy Comptroller David Roose provided an update on the activities of the Comptroller's Office. During 2014, the Comptroller's Office again focused on providing effective and efficient services to taxpayers along with tax fairness and fiscal responsibility.

The Comptroller's office advises that it is actively encouraging taxpayers to file electronic tax returns to promote efficiency. Out of 3 million tax returns filed in calendar year 2013, 2.4 million were filed electronically. With electronic filing, taxpayers returns averaged 2.3 business days and the State saves $2.00 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 the bFile program.

Annually, the Comptroller's Office works to reunite unclaimed property with its owner. To date, the Comptroller's Office has had approximately 51,000 unclaimed property claims totaling over $62 million. Also, over the last 6 years, the Comptroller's Office has collected approximately $3.7 billion in delinquent taxes. Through the Comptroller's Office's partnership with the U.S. Department of Treasury, $80 million in federal vendor payments has been intercepted to satisfy State income tax liabilities.

The Comptroller places a high priority on customer service. 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 said that he emphasizes customer service because he wants Maryland citizens to know that the Comptroller's Office appreciates them living in our state.

The Comptroller's Office has continued its efforts to stop cigarette smuggling. The Comptroller thanked the General Assembly for strengthening penalties for cigarette smugglers, noting that his office has been more successful than ever in combating cigarette smuggling.

The Comptroller and committee discussed the various safeguards the Comptroller's Office has in place to combat computer hackers and fraudulent tax filers.

One of the joint committee members asked the Comptroller about debt affordability. 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.

The joint committee was not asked to sponsor any legislation by the Office of the Comptroller for the 2015 legislative session.

Conclusions and Recommendations: The joint committee is pleased with the reported accomplishments provided by the Comptroller. The joint committee is also pleased with the thoroughness of the Comptroller's report.

State Treasurer's Office – Update of Activities

State Treasurer Nancy Kopp, Chief Deputy Treasurer Bernadette Benik, and Deputy Director of Debt Management Nikki Griffith provided an update on the activities of the Treasurer's Office. Treasurer Kopp reported that in July 2014 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.

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 are credit strengths and help offset concerns about the State's debt burden. Standard and Poor's and Moody's state that the Capital Debt Affordability Committee (CDAC) and the debt affordability process have a positive stabilizing effect on the State's debt profile.

Fitch Ratings noted that "[d]espite pensions being a comparative credit weakness, the state has taken multiple steps to reduce their burden and improve sustainability 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 October 2014, the CDAC recommended $1,170 million for new general obligation bond authorizations to support the fiscal 2016 capital program. The CDAC's planning assumptions project $1,180 for fiscal 2017, $1,275 for fiscal 2018, $1,315 for fiscal 2019, $1,355 for fiscal 2020, and decreasing to $1,320 for fiscal 2021. 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 2015 and is projected to total $500 million.

The joint committee was not asked to sponsor any legislation by the State Treasurer's Office for the 2015 legislative session.

Conclusions and Recommendations: The joint committee is pleased with the reported accomplishments provided by the Treasurer and the thoroughness of the Treasurer's report. The joint committee is also pleased that the State continues to maintain its AAA bond rating.

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 2013.

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. The City of Hyattsville and Town of Deer Park had not filed an audit report for fiscal years 2012 and 2013. The City of Glenarden, Town of Marydel, Town of Morningside, and Town of Pittsville had not filed an audit report for fiscal year 2013.

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.

A conversation regarding OLA's method of tracking local jurisdictions' progress, special taxing districts, and community benefit districts ensued.

Conclusions and Recommendations: The joint committee requests that OLA give local jurisdictions timetables within which to respond to letters of noncompliance. The joint committee commends OLA for its thorough review of local government audit reports.

December 10, 2014 Meeting

Maryland Economic Development Corporation – Update of Major State Funded Projects

Robert Brennan, Executive Director of the Maryland Economic Development Corporation (MEDCO), briefed the committee about MEDCO's role in assisting the State's economic development efforts.

Mr. Brennan provided the committee with an overview of several types of activities in which MEDCO actively engages. MEDCO is a statewide issuer of conduit bonds that allow eligible businesses to borrow on a tax-exempt basis to arrange financing with their bank or access capital markets to obtain a lower interest rate. MEDCO issues tax-exempt and taxable revenue bonds to fund projects that it owns and operates throughout the State. MEDCO is also an issuer of both taxable and tax-exempt lease revenue bonds to finance certain State and Federal projects, and is authorized to issue tax increment financing bonds for Baltimore City and certain Transportation Oriented Development projects throughout the State. In addition, MEDCO works with local governments in an advisory capacity to develop economic feasibility and other technical studies.

The State of Maryland and MEDCO are not responsible for the repayment of the bonds that are issued by MEDCO. The repayments of MEDCO bonds are limited to the revenues and the resources of each project.

MEDCO actively partners with a wide variety of State entities including the Maryland Department of Transportation, the Maryland Aviation Administration, the Department of General Services, the Maryland State Archives, and various State colleges and universities on projects throughout the State.

Mr. Brennan and the joint committee members discussed the status of the Purple Line. In addition, one of the co-chairs noted that the previous tenants at the National Cybersecurity Center of Excellence were unhappy because of their displacement.

Mr. Brennan also noted that MEDCO still has various projects sponsored by DBED in its portfolio, but that these types of projects have not been as robust in the last 12 years.

One of the co-chairs commended MEDCO on the success of the revitalized Harbor East community in Baltimore City, which was a DBED sponsored project that MEDCO oversaw. The same co-chair asked if there were plans for MEDCO to support similar projects in other Baltimore City communities and throughout the State. Mr. Brennan noted the Harbor East project was funded by DBED, whose budget has been tightened in recent years, but it is hoped that a private equity fund could be created to fund similar types of community projects.

One of the joint committee members asked MEDCO to discuss unsuccessful projects. Mr. Brennan responded that his predecessor had entered into several golf course projects that proved to be unsuccessful. Mr. Brennan also noted that MEDCO lost approximately $7 million to keep the Rocky Gap hotel, golf course, and conference center in Allegany County afloat until that facility was eventually sold to another entity. Mr. Brennan said the fortunes of Rocky Gap have greatly improved since the facility installed slot machines.

Conclusions and Recommendations: The joint committee is pleased with the thoroughness of MEDCO's presentation on its economic development activities and projects. The joint committee will continue to monitor the activities of MEDCO.

Maryland Stadium Authority – Update of Major State Funded Projects

Michael Frenz, Executive Director of the Maryland Stadium Authority (MSA), Dr. Gregory Thornton, Chief Executive Officer of Baltimore City Public Schools (BCPS), and Dawn Kirstaetter, Deputy Mayor for Health, Human Services, Education, and Youth opened the presentation by giving brief summaries of the roles and responsibilities of their respective entities with regard to the BCPS Construction Program. The program is a collaborative effort between a number of entities and local organizations that seeks to maximize opportunities for BCPS students and City residents.

A panel headed by David Lever, Executive Director of the Interagency Committee on School Construction, and Gary McGuigan, Project Executive at the Maryland Stadium Authority, briefed the committee on the background of the program. The panel noted that the program has encountered its share of successes and challenges since its inception. The first two schools entered the design phase in September 2014. BCPS committed to an 86% district-wide utilization rate by 2020. At this time, the program is on schedule to be completed by 2020. The program is not without its challenges, however, as the projection of schools has been revised downward from 30-35 to 23-28 based on more detailed estimates.

A discussion between the panel and joint committee members regarding BCPS's committed 86% district-wide utilization rate ensued. The panel explained that the 86% figure is across all schools within the BCPS system. Some facilities will be fully utilized, whereas others will fall below the 86% threshold. The 23-28 schools within the program, however, have a targeted utilization rate of 90%. The panel went on to explain that the targeted utilization rates allow for the program to accommodate student mobility.

The panel provided an overview of alternative financing options, which included green bonds, 18 EB-5 Immigrant Investor visas, and short- /long-term fixed-rate taxable bonds. In addition, a market analysis completed by the City School Partners found that BCPS school construction costs are on par with area school construction costs on a per square foot basis. The average construction costs in the areas studied (District of Columbia, Prince George's, Anne Arundel, St. Mary's, Baltimore, and Montgomery counties, as well as Alexandria, Virginia) is $307 per square foot, with BCPS coming in at $309 per square foot.

The panel members noted that they are highly concerned about underutilization and the maintenance of unused facilities throughout the school system and are working vigorously to address these issues. A five-year comprehensive maintenance plan was approved in September 2014. The plan will, among other things, increase the maintenance budget by $3.0 million annually and enhance staffing and the reorganization of personnel.

The program allows MSA to leverage $60 million annually for 30 years for up to $1.1 billion in bonds for the program. These bonds are considered revenue bonds, which do not affect debt affordability ratios. A request for proposal for underwriting services will be issued in

December 2014 with bids due in January 2015. The MSA plans to approve bids by February or March 2015, and the first series will be issued in late summer or early fall of 2015.

One of the co-chairs asked if the software systems and models that MSA use to implement the program can be used to implement a similar program in another jurisdiction within the State. The panel responded that certain elements are transferable, but the size of a new program will determine whether MSA's current systems and models can be used. The panel also noted that expanding the program to include other jurisdictions may impair coverage ratios.

One of the co-chairs asked the panel to explain the program's governance structure in more detail. The panel stated that this is a collaborative effort, emphasizing the inclusion of each stakeholder at every stop of the process. MSA noted that it has most of the control of the budget at schedules.

The panel briefly explained the nonschool activities of MSA.

Conclusions and Recommendations: The joint committee commends MSA, BCPS, and IAC and their partners for their ongoing commitment to this program. The joint committee is pleased with the thoroughness of their report. The joint committee will continue to monitor the activity of the program.