



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
R. Michael Gill | Secretary of Commerce
Benjamin H. Wu | Deputy Secretary of Commerce

TESTIMONY OF R. MICHAEL GILL, SECRETARY

on the

FY 2018 COMMERCE ALLOWANCE

before the

SENATE BUDGET AND TAXATION

SUBCOMMITTEE ON EDUCATION, BUSINESS AND ADMINISTRATION

Friday, February 24, 2017

I. Introduction

Good afternoon Chairman King and members of the subcommittee. Thank you for the opportunity to appear before you today in support of the FY 2018 budget allowance for the Maryland Department of Commerce. The proposed \$153.3 million budget, which is \$4.8 million more than our FY 2017 budget, would allow the Department to continue to be laser focused on its core mission of creating and retaining jobs in every region of our state. Additional funds for the Maryland Economic Development Assistance Authority and Fund (MEDAAF) and the Economic Development Opportunities Fund, also known as Sunny Day, are critical to meeting the increasing demand for major economic development projects and enabling Commerce to compete not only regionally, but nationally and globally.

Before proceeding with our testimony, I want to acknowledge Jody Sprinkle and the staff of the Department of Legislative Services (DLS) for their thorough and professional review of Commerce's operations and the FY 2018 budget allowance.

Maryland's economy is continuing to improve. The state's GDP grew by three percent between the second and third quarters of 2016, and we saw significant increases in several key industry sectors, including finance and insurance, IT, and wholesale trade. Manufacturing, which has been declining over the past two decades, added 2,000 new jobs between December 2015 and 2016, ranking Maryland 7th in the country. Overall, Maryland's private sector added 22,800 over the 12-month period.

With a growing economy, it is more important than ever that Commerce remain focused on our key goals that will keep Maryland competitive not just for today, but for decades to come:

1. Attract and retain businesses and grow jobs in all regions of the state
2. Support the state's outstanding culture and quality of life
3. Fuel the success of Maryland's small, minority, and women-owned businesses
4. Position the state's targeted industries for growth
5. Enhance workforce development programs
6. Promote the state's unique assets and strategic location

II. Top Budget Priorities

Modernize and Recapitalize MEDAAF

The Maryland Economic Development Assistance Authority and Fund is the Department's primary direct assistance fund, providing incentives to significant projects that address our mission to attract and retain jobs and stimulate capital investment. Capabilities are broad, including conditional loans and grants and investments.

MEDAAF was created as a result of a mandated consolidation of a number of the Department's financing programs in FY 2000. Nearly 20 years later, now is the time to modernize the program. To address this issue, Commerce has submitted legislation to rebrand MEDAAF to a program called Advantage Maryland. The proposed legislation will also redirect non-core capabilities to existing state financing programs and add in a working capital function that will enable us to meet the needs of a 21st-century economy.

MEDAAF has been highly effective in generating substantial revenue returns to the state. Based on the current pipeline of 68 transactions, the projected \$57 million in funding will leverage more than \$2.1 billion in private sector capital investment resulting in nearly 31,000 new and retained jobs. The income and property tax estimated at nearly \$1.8 billion over the life of these projects calculates to a \$27 revenue return on each \$1 of MEDAAF funding.

Recent MEDAAF recipients include 2U (900 new jobs in Prince George's County), DOT Foods (100 new jobs in Washington County), Frito Lay (140 new jobs in Harford County), Wedding Wire (300 new jobs in Montgomery County), and Nammo Group (130 new jobs in Charles County).

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

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

As of late January 2017, there were 34 projects totaling \$31.9 million for which MEDAAF were encumbered and an additional 28 projects in process that require another \$23.6 million. If all projects move forward, MEDAAF, at its current appropriation of \$19.7 million, would be \$8 million oversubscribed, making the \$24 million in general funds proposed in Governor Hogan's budget critical to being able to attract and retain companies and add new jobs.

Partnership for Workforce Quality (PWQ)

The Commerce budget allowance includes \$1 million to revive an existing worker training program known as the Partnership for Workforce Quality (PWQ). This important program awards funds on a matching basis to businesses who invest in training and upskilling their workforce to maintain a competitive edge. The program is targeted to manufacturers and small technology firms and is a key component of the Governor's Jobs Initiative.

In recent years, PWQ has assisted companies statewide train employees on more advanced machinery or technology, including Protenergy in Dorchester County; Garrett Container in Garrett County; Knorr Brake in Carroll County; and Berry Plastics in Baltimore City. As a result of the state's assistance, these companies and several more have been able to expand and add jobs. In addition, an analysis by Commerce's research team shows that PWQ generated a return of more than \$18 in state tax revenues for each dollar of incentive funds expended.

Recapitalize Economic Development Opportunities Fund (Sunny Day)

The Economic Development Opportunities Fund, or Sunny Day, supports extraordinary economic development projects that require financial assistance beyond the capabilities of other state and local funding programs. Through Sunny Day, Commerce was able to support the expansion of Northrop Grumman, which has more than 10,000 highly-skilled, high-paying jobs that are directly responsible for an estimated \$49.2 million in state personal income and sales taxes per year. In total, the aerospace giant supports more than 25,000 jobs in Maryland and contributes to the generation of \$81.1 million in state tax receipts.

The next major economic development priority is \$20 million in Sunny Day funding to Marriott Corp., which will assist the company in building a \$600-million new headquarters in Montgomery County and securing its presence in Maryland for decades to come. As part of the project, the company will retain 3,500 employees, who have average salaries of \$167,000. Over the next 21 years, the projected economic output of the project is \$31 billion. In total, the project will support 72,000 indirect and induced jobs, revenues to area businesses of \$1.2 billion annually, and a 20-year projected tax revenue of \$1.7 billion to the state and \$153 million to Montgomery County.

III. Commerce Highlights

Key business wins in 2016

A renewed focus on business attraction and retention resulted in more than 11,300 jobs created or retained, 70 expansions or location decisions, and more than 2,200 direct outreaches to Maryland companies in FY 2016. Among our wins:

- **Morgan Stanley**, one of the world's largest financial services firms, is continuing to grow its footprint in Baltimore City by expanding into new office space in the downtown area. The company is planning to add 800 new jobs.
- German grocer **LIDL**, one of the world's largest retailers, is opening a new \$100 million regional headquarters and distribution center in Cecil County and plans to create 100 new jobs.
- **The Donohoe Companies**, one of the region's largest commercial real estate developers, moved its headquarters to Montgomery County, bringing with it 240 jobs.
- **Crystal Steel Fabricators**, a Delaware-based structural steel manufacturer, has opened a new manufacturing facility in Caroline County and is planning to create 126 new jobs.
- **MedStar Health**, one of the largest healthcare providers in the region, moved 72 jobs from their other offices in the area to a new headquarters facility in Howard County.

- **Metropolitan Meat, Seafood & Poultry Co.**, a specialty foods distributor, consolidated its Washington, D.C. operations into its Prince George's County facility and added 80 new jobs.
- **Choptank Transport**, a third-party logistics company that specializes in truckload freight, expanded its Caroline County headquarters facility and is adding 130 new jobs. This marks the third expansion for Choptank in the last decade.

Business Outreach

Over the past year, Commerce has doubled the number of regional representatives to work one-on-one with businesses in their counties and help them grow and add jobs. In FY 2016, the Department's direct outreach to Maryland companies more than doubled – up by 115 percent.

In 2016, we launched a program to recognize Maryland companies celebrating a significant milestone anniversary. Through this outreach, Commerce was able to honor more than 50 businesses and thank them for their continued investment in Maryland. Among the businesses recognized was The Bank of Delmarva, BGE, Princeton Sports, Dixon Valve and Coupling, and Linganore Winecellars. The Department also created a Platinum 500 program that identifies Maryland's major private sector employers and schedules regular outreach to them.

Increase small, minority and women-owned business lending

The Small, Minority, and Women-Owned Business Account — commonly referred to as the Video Lottery Terminal (VLT) Fund — has quickly grown into one of Commerce's most widely used financial assistance programs. Since FY 2014, Commerce has committed \$52.2 million for small business loans made by fund managers in every region of the state. Recipients include manufacturers, restaurants, IT firms, cybersecurity companies and other small businesses. In FY 2016 alone, fund managers approved 126 transactions totaling \$14.9 million. Since the program's inception, nearly 80 percent of the funds went to minority-, women-, or veteran-owned businesses.

At the end of FY 2016, Commerce initiated a customer satisfaction survey to VLT recipients. Of those that responded, nearly 90 percent reported they were very likely to hire new employees, and more than 77 percent reported the loan received from the VLT program was helpful in growing their business.

The program is on pace to exceed the budget allowance in FY 2017. Funded with 1.5 percent of VLT revenues; the proposed budget for FY 2018 is \$16.9 million, a 25 percent increase over the current year. Given the tremendous success of the program and a growing demand, the additional funds would go a long way toward supporting thousands of small businesses that serve as the backbone of Maryland's economy.

In addition, Commerce has submitted legislation that shifts the administration of the program, which is currently managed by the Board of Public Works, to Commerce. While Commerce manages the eight fund managers that make loans to businesses, the Department currently lacks the power to make or enforce any changes to the program.

Marketing Maryland and building the state's brand

The Maryland Public-Private Partnership Marketing Corporation, known commonly as the Maryland Marketing Partnership (MMP), convened for the first time in April 2016 and is leading

a rebranding effort that will position Maryland as an ideal location for business location and expansion. The MMP contracted with HZDG, a creative agency based in Rockville, following a competitive bid process. HZDG's work is ongoing, with a new branding campaign expected to debut by early spring 2017.

The MMP is also planning a signature business event which will bring together the statewide business community and serve as a promotional tool for the state and its brand. The first Governor's Business Summit is scheduled for Thursday, May 18 and will be held at the Baltimore Hilton. Attendance will be capped at around 500 attendees for the one-day conference.

Another function of the MMP is fundraising in the private sector, which is being done to complement the state's investment in the MMP's programs. As of January 24, corporate commitments totaling \$1 million over the course of three years (installments split among calendar years 2017, 2018 and 2019) have been received, with additional prospective corporate partners considering an investment in the effort. Development efforts will continue throughout 2017 to grow the MMP's ability to share Maryland's business message and promote the state to both an in-state and out-of-state business audience.

Commerce Subcabinet

Led by Commerce Secretary Mike Gill, the Commerce Subcabinet is comprised of the secretaries of the Departments of Transportation (MDOT), Environment (MDE), Labor, Licensing and Regulation (DLLR), Housing and Community Development (DHCD), Planning (MDP) and the Governor's Office of Minority Affairs (GOMA), which are the most customer-focused state agencies and departments. The cabinet agencies are engaged in three workgroups – Customer Service, Mega Projects and Workforce Development.

The Customer Service Workgroup, in partnership with the Governor's Business Ombudsman and the Office of Performance Improvement (GOPI), ensured that 39 state agencies now have customer service programs and training within their strategic plans. A signature initiative of the workgroup was a customer service survey, which was launched in late 2016 and serves as a useful tool in bench marketing and addressing customer satisfaction.

The Mega Projects Workgroup is tracking more than 110 development projects of significant impact to local jurisdictions. By tracking and regularly communicating on the status of the projects, inter-agency coordination increased and projects advance leading to the creation of jobs and opportunities for Marylanders.

The Workforce Development Workgroup is a partnership between DLLR and Commerce with partners in academia, for- and non-profit agencies, other state agencies and the federal government. The workgroup identified programs and initiatives to increase workforce development opportunities, reduce confusion of state agency roles, improve customer service, and support economic vitality and growth.

Targeted Industries

Manufacturing - To continue to support the growth of the industry in Maryland and address obstacles to growth, Commerce has participated in a series of manufacturing roundtables that have been held throughout the state to connect with local economic development partners and seek potential solutions to the challenges facing the industry. The Department is also working closely with manufacturing resource partners to unveil Manufacturing 4.0. With advancements in manufacturing such as automation, robotics, 3D printing and manufacturing intelligence

changing the face of the industry, Manufacturing 4.0 will seek to require manufacturers to digitize all facets of the manufacturing process. A plan is expected in October 2017.

Cybersecurity - Maryland continues to lead the nation in cybersecurity. Among the highlights in 2016 was the opening of the National Cybersecurity Center of Excellence in Montgomery County, and planning and helping to support the CyberMaryland Conference, which drew nearly 1,000 attendees. For the fifth year in a row, the Department led the CyberMaryland team to the RSA Conference in San Francisco, the world's largest gathering of information security professionals. Commerce also signed a first-of-its-kind agreement with the Netherlands and The Hague Security Delta to establish an exchange of cybersecurity companies to explore establishing a presence in each other's jurisdictions. Five Dutch companies came to Maryland in February 2017 and four Maryland companies will be journeying to The Hague.

Aerospace - The University of Maryland Unmanned Autonomous Systems Test Site in St. Mary's County continued to gain prominence as a leader in developing new roles, policies, and procedures for unmanned systems, assisting Maryland companies develop in this emerging industry. In addition, Maryland is continuing to strengthen relationships with key federal agencies, like NASA Goddard, Universities Space Research Association (USRA), and NOAA to brand the state as a leader in space research and advanced technology development. In June, Maryland will lead a delegation of aerospace businesses to the Paris Airshow.

BioHealth and Life Sciences - Life sciences is continuing to grow in Maryland, with the number of companies in the industry up 8 percent in 2016 to more than 2,200 and employment up 11 percent to nearly 40,000. The state's Life Sciences Advisory Board has set a goal for Maryland to be within the top three biohealth ecosystems in the country by 2023. The Board will issue approximately 12 final recommendations in four categories and will adopt an implementation plan by mid-2017. In company news, Global pharmaceutical giant GSK established its global vaccine headquarters in Rockville with 260 new jobs. They plan to add another 200 jobs by mid-2017, bringing their total employment in Maryland to 1,000. Additionally, the Biotechnology Investment Incentive Tax Credit was fully subscribed in 2016, with 23 Maryland companies raising more than \$23 million from investors.

Education & Innovation -

Maryland is continuing to build partnerships that highlight the importance of economic development as it relates to higher education and innovation. Among the efforts in 2016:

- **Maryland WorkSmart** – A partnership between Commerce and the Maryland Association of Community Colleges created a program that connects the state's 16 community colleges with local employers to build customized workforce training and assess future training needs. A “one stop shop” for Maryland businesses and workforce stakeholders, the Maryland WorkSmart program will provide training through a network of centers located at each of the community college campuses.
- **The Internship Network of Maryland** – In collaboration with Breezio and the Maryland Technology Council, Commerce has helped develop a statewide internship

collaborative which seeks to connect smart, skilled, educated workers to industry opportunities through a robust Statewide Internship and Industry Experiential Program, creating a central virtual marketplace and HUB for internship and talent connections.

- **Maryland E-Innovation Initiative Fund** – In FY 2017, the fund leveraged private donations by making eight awards to six colleges and universities to spur basic and applied research in scientific and technical fields. Among the types of research funded by the program is microbial genomics, computational science, biological sciences, life and neuro sciences, medical engineering, advanced bioproducts research and education, nursing, biomedical research and commercialization, and sustainable food systems.

Expanding our global footprint

Commerce awarded 66 ExportMD grants totaling \$409,000 in FY 2016 to help small- and medium-sized Maryland companies market their products overseas. Because of the grants, 32 Maryland businesses were able to attend a number of international trade shows to which Commerce led delegations, including health care trade shows in UAE (Arab Health) and Germany (Medica), as well as an industrial automation and energy trade show in Germany (Hannover Messe). As a result of the grants and Commerce assistance, Maryland companies reported more than \$94 million in export sales in FY 2016. To help fund ExportMD, Commerce was awarded a \$777,579 State Trade and Export Promotion (STEP) grant from the U.S. Small Business Administration. This is the fourth year the Department has received the award.

Commerce coordinated Governor Hogan's investment and trade mission to Israel and announced several investment projects in Maryland which, when complete, will result in more than 300 new jobs.

Commerce's International Investment and Trade Office launched the Maryland Partners in International Trade (MAPIT) program, bringing together government and academic partners to raise awareness of existing export promotion programs, facilitate greater access and usage of the state's export programs, and build new collaborative globally-focused programs. The Office is also coordinating with University of Maryland Robert H. Smith School of Business on the Maryland Global Consulting Program to provide global consulting expertise to small Maryland companies.

Tourism, Film and the Arts

Because they are a significant economic driver and account for hundreds of thousands of jobs in Maryland, the state's tourism, film and arts agencies are an important part of Commerce.

- **Tourism** – Visitors to Maryland are continuing to increase, with more than 40.5 million domestic visitors in 2015, a nearly 6 percent increase from 2014. In addition, visitor spending climbed 3.5 percent to \$16.8 billion in 2015. Spending from visitors generated more than \$2.3 billion in state and local taxes and saves every Maryland household \$1,040 annually. Helping drive the increase in visitors is the expansion of the state's tourism marketing footprint to Pennsylvania, Ohio, and New York.
- **Film** – The Maryland Film Production Activity Tax Credit supported one major production in 2016 — the award-winning Netflix series *House of Cards* (HOC). The series began shooting season five in early July 2016, and will be filming until mid-

February 2017. The combined economic impact of the first four seasons in Maryland exceeds \$460 million. HOC hired an average of 2,154 Marylanders per season, and directly bought or rented goods or services from an average of 2,228 Maryland businesses per season. In addition to *House of Cards*, three days of the HBO film *The Immortal Life of Henrietta Lacks*, seven days of the film *Jackie*, and 24 days of the local indie film *Sollers Point*, filmed in Maryland.

- **Arts** – With a more than \$1.16 billion impact in FY 2015 and 14,500 jobs, the arts are a powerful economic engine. Spending by the Maryland State Arts Council’s (MSAC) 299 grantee arts organizations and their audiences generated \$54 million in state and local tax revenue, and \$3.37 in total economic activity was generated for every dollar of the operating budgets of arts organizations in the state. Through its flagship programs Grants for Organizations and Community Arts Development, MSAC awarded operating grants totaling more \$14.5 million to 300 arts organizations across the state, including grants to the local arts councils. In addition, MSAC’s Arts in Education Program reached more than 160,000 students through performances and workshops in almost 500 Maryland schools. In FY 2018, MSAC will celebrate 50 years of service to the arts in Maryland.

IV. Department of Legislative Services (DLS) Recommended Actions

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

V. Conclusion

The proposed FY 2018 budget for Commerce reflects the Administration’s steadfast commitment to creating economic opportunities in every corner of the state by attracting new companies, helping our existing companies expand, supporting our small businesses, promoting our assets, and continuing to enhance our quality of life. The additional funding, particularly for our financing programs, is more critical now than ever before with our economy the strongest it’s been years and many companies finally at a point where they can expand, add new jobs, or choose Maryland as their new home.

I want to close by recognizing the budgetary pressures that this Committee has faced in recent years. We at Commerce truly appreciate your hard work and the care you take in crafting strong, sensible budgets for the Department. In the end, a strong economy means a better quality of life and more opportunities for growth for the people of Maryland.

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