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**TESTIMONY OF R. MICHAEL GILL, SECRETARY**  
**on the**  
**FY2017 COMMERCE ALLOWANCE**  
**before the**  
**SENATE BUDGET AND TAXATION**  
**SUBCOMMITTEE ON EDUCATION, BUSINESS AND ADMINISTRATION**  
**Friday, February 26, 2016**

**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 FY2017 budget allowance for the Maryland Department of Commerce. It is fitting this agency is here as Commerce for the first time — the past year has been one of many changes for us, the new name only first among them. The proposed \$153.6 million budget, a 23.6 percent increase over FY2016, would allow the department to expand its wide-ranging efforts to spur job creation and economic growth. The department's course is charted by the newly reinvigorated and elevated Maryland Economic Development Commission (MEDC), a panel led by members with broad private sector experience. The MEDC released this month a comprehensive strategic plan that guides every action Commerce takes. Its main principles are:

1. Achieve operational excellence and effectiveness within Commerce.
2. Advance innovation and entrepreneurship.
3. Grow strategic core sectors of the economy.
4. Reach every corner of the state with a "One Maryland" approach.
5. Improve the state's brand and attract top talent.
6. Foster a competitive business environment.

Each of the first five goals buttresses the sixth. At Commerce, it is our job to make Maryland the best place to start, run and grow a business. At no time has that mission been more important than it is now. Our economy is improving and more opportunities to accelerate the trend are presenting themselves. Maryland created 54,900 jobs last year, including 48,000 in the private sector. But we face unprecedented competition for businesses, jobs and workers from other states and abroad. Now is the time to invest in the modern, targeted and impactful initiatives as laid out in our FY2017 budget proposal.

## **II. Top Budget Priorities**

### **Recapitalize MEDAAF**

The Maryland Economic Development Assistance Authority and Fund (MEDAAF) is Commerce's largest financial incentive program, providing loans, investments and grants to businesses and local jurisdictions to support top economic development projects. It is also one of the most impactful pound-for-pound economic development tools Commerce runs. In FY2015, MEDAAF's direct support to businesses created or retained 3,957 jobs. Commerce estimates the program as a whole directly supported 4,426 jobs as well as 11,415 indirect jobs that, altogether, averaged \$79,000 in annual salary and accounted for \$69 million in state tax revenues. The \$14.3 million in MEDAAF assistance delivered in FY2015 leveraged \$427 million in private investment, a nearly 30:1 ratio.

Recent MEDAAF recipients include Tenable Security (350 new jobs in Howard County), McCormick & Co. (800 retained jobs in Baltimore County), Choptank Transport (100 new jobs in Caroline County) and Pinnacle Foods (200 new jobs in Washington County).

Demand for MEDAAF resources has increased sharply in recent years as economic activity has rebounded and intensified following the Great Recession.

<b>Year</b>	<b>New Funds Encumbered</b>
FY2012	\$11.5 million
FY2013	\$15 million
FY2014	\$18.3 million
FY2015	\$26.5 million

As of Feb. 10, the program had \$32.3 million encumbered (or set aside) for 54 projects. Thirty additional projects the department believes are more likely to happen than not would require another \$22.5 million in funding. If all projects move forward, MEDAAF would be \$11.9 million overdrawn, making the \$13.7 million in general funds in the governor's budget proposal a top Commerce priority.

### **Revitalize Sunny Day to pursue a major economic development priority**

Sunny Day supports extraordinary economic development projects that require financial assistance beyond the capabilities of other state and local funding programs. Commerce is faced with not just an opportunity, but an imperative in Northrop Grumman. One of the state's largest employers, Northrop accounts for 10,000 high-skilled, high-paying jobs that are directly responsible for an estimated \$49.2 million in state personal income and sales taxes per year. Overall, the company supports more than 25,000 jobs in Maryland and \$81.1 million in state tax receipts. Northrop also anchors Maryland's sprawling aerospace and defense industries. Together they include 8,580 related companies and \$32.82 billion in economic activity. The industries employ more than 142,000 people, including 99,000 in the private sector, with average annual salaries of \$106,890.

The \$20 million in Sunny Day funding and additional, targeted tax credit incentives included in companion legislation would secure the company's recently consolidated Mission Systems headquarters in Maryland, maintain Northrop's significant employee base and support

its investment of at least \$100 million in a Maryland facility. The Sunny Day appropriation would be the first in more than a decade.

### **Increase small, minority, women-owned business lending**

The Small, Minority, and Women-Owned Business Account — commonly referred to as the Video Lottery Terminal (VLT) Fund for its funding source — has quickly grown into one of Commerce’s largest financial assistance programs. Since FY2014, Commerce has committed \$28 million for small business loans made by fund managers across the state. To date, \$25.2 million of that funding has been committed to 209 loans. Recipients include manufacturers, restaurants, IT firms, cybersecurity companies and other small businesses. In FY2015 alone, the fund managers approved 66 transactions totaling \$9.2 million. Some 74% of the funds went to minority-, women-, or veteran-owned businesses.

The program’s fund managers are on pace to exceed last year’s totals in FY2016. The proposed budget includes \$13.6 million in FY2017, a \$3 million increase over the current year. The program receives 1.5 percent of VLT revenues.

### **Enhance regional outreach and partnerships**

Commerce has increased the number of staff in critical customer-facing positions so the department can touch more businesses and develop more partnerships with local agencies, regional groups and others. The number of Commerce representatives detailed to regions around the State, expert in the needs of individual businesses and communities, has increased to 12, up from eight at this time last year. This gives each representative a smaller area to cover and allows them more time with individual businesses and also frees the director of the unit to focus on strategic regional initiatives.

Commerce’s proposed budget also includes additional funds for the five regional councils in Maryland, increasing the annual appropriation to \$200,000 per council, up from \$150,000. Regional councils, like local economic development agencies, are essential partners in Commerce’s mission and key monitors of local opportunities and threats.

### **Boost support for Maryland’s creative economy**

The governor’s budget proposal includes a record \$20.4 million for the Maryland State Arts Council, including a \$2 million enhancement contingent on the enactment of legislation. Nonprofit arts organizations and their audiences have an economic impact of more than \$1 billion and support 12,100 full time equivalent jobs. The budget also includes \$11.5 million for the Maryland Film Production Activity Tax Credit. The estimated economic impact of the first four seasons of the Maryland-produced VEEP and House of Cards combined is projected to exceed \$550 million.

## **III. Department of Commerce 2015 Overview**

We began the year as the Department of Business and Economic Development and ended it as the Department of Commerce, but the new name and corresponding new branding are just the tip of the iceberg. Commerce staff provided a wide range of assistance to 407 small, women-owned and minority-owned enterprises in 2015. The regional sales team, which has been

expanded, visited more than 500 companies around the state. Commerce's business development efforts supported 145 new and expanding companies with financial, tax and other assistance to create and retain 11,614 Maryland jobs. That's 46.5 jobs for every day state offices were open for business. That's a job created or saved every 10 minutes during normal business hours. And every dollar invested and direct job created ripples through the economy. The average new job supports 1.6 more, and every dollar invested by Commerce spurs \$56 in economic activity, according to a widely used, nationally recognized economic model.

The department, working with local partners throughout the state, scored a number of major "wins" in 2015.

- The department made a \$1 million conditional loan to **Tenable Network Security**, a fast-growing cybersecurity company that will add 350 jobs at its Columbia headquarters over the next five years.
- **Tempur Sealy** is leasing a new, 615,000 square-foot building in Hagerstown to expand its manufacturing and distribution operations. The company is retaining 112 jobs as a result, with plans to create 120 new jobs. Commerce provided a \$400,000 MEDAAF conditional loan.
- The state retained the headquarters of Fortune 1000 global spice giant **McCormick & Co.**, which will move 800 employees to a new headquarters in Baltimore County. Commerce will provide a \$2 million grant to support building improvements.
- **Direct Energy Solar** (formerly known as Astrum Solar), a leading residential solar power provider, will expand its Howard County headquarters, adding 240 new jobs over the next three years. Commerce provided a \$500,000 MEDAAF conditional loan.
- Commerce supported the new location of **Pinnacle Foods**, a Fortune 1000 company, with the opening of a food manufacturing facility in Hagerstown, creating 200 jobs by the end of 2020. Commerce provided a \$500,000 MEDAAF conditional loan for Pinnacle, which will occupy a vacant food processing building.
- **VariQ**, a cybersecurity firm, is expanding its presence in Montgomery County with a larger headquarters facility in Rockville, adding 250 new jobs. Commerce provided a \$280,000 MEDAAF conditional loan.
- **FlexEL**, a battery technology company that graduated from the Maryland Industrial Partnerships program, established a facility in College Park, creating 50 new jobs. Commerce provided a \$200,000 MEDAAF conditional loan to the company.

Commerce underwent internal changes as well in 2015. The department was reorganized and a flatter structure implemented with customer service top of mind. Top managers interact routinely with staffers who deal directly and daily with customers — the businesses of Maryland. The department has been streamlined into six business units: Administration and Technology; Tourism, Film and the Arts; Business and Industry Sector Development; International Investment and Trade; Military and Federal Affairs; and Marketing and Communications.

Per 2015 legislation, Commerce sent its venture investment arm and early stage biotechnology grants to its sister agency. The move more clearly delineated the roles of Commerce and TEDCO to give businesses clearer avenues to state assistance. Very early stage

companies are largely the province of TEDCO while more mature firms fall under the purview of Commerce.

The department has made important strides to ensure it continues to be an effective force for economic growth. The MEDC's strategic plan will be a roadmap for economic development for years to come. Commerce also worked with a team of consultants from the Center for Regional Economic Competitiveness (CREC) to analyze the department's finance programs and tax incentives. While the programs are having a positive impact, there remains room for improvement, CREC found. Most opportunities to strengthen the programs fall into three broad categories — increasing flexibility to allow the state to land major economic development projects, simplifying programs and targeting economically distressed areas more effectively, and better aligning programs to support small business lending and leverage more private investment.

#### **IV. Commerce Highlights**

To highlight a selection of our work in the last year:

##### **Core Industries**

Commerce's strategic industries team has redoubled efforts to support the expansion of key sectors at the heart of Maryland's economy. They are expert in the industries' strengths, weaknesses, opportunities and threats. They bring the needs of target companies to Commerce management, help them address issues and work to take advantage of opportunities.

- **Manufacturing:** Commerce worked with county partners to set up manufacturing roundtables where local manufacturers come together to discuss industry and company-specific issues and opportunities. The forums will continue as a primary way to support manufacturers across the state.
- **Biotechnology:** The decision of KeyGene, a Netherlands-based leader in molecular breeding and translational agriculture, to establish its U.S. headquarters in the University of Maryland Institute of Bioscience and Biotechnology Research was a major win for Commerce and the state. Commerce also administers the highly effective and popular Biotechnology Investment Incentive Tax Credit program. In FY2015, investors in 24 Maryland companies received \$11.7 million in credits, leveraging more \$23.4 million in investment in these early stage companies.
- **Cybersecurity:** As part of a public-private partnership, Commerce helped produce the CyberMaryland Conference in Baltimore, drawing more than 800 people over two days with speakers, panelists and abstract presenters. The department also led the CyberMaryland team at the RSA conference in San Francisco, the world's largest gathering of information security professionals, making connections with about 500 visitors and hosting meetings with clients. Commerce works closely with colleges, universities, military facilities, and training firms to develop programs that infuse Maryland's labor market with skilled workers in all STEM disciplines.
- **Energy:** Commerce is convening a group of agencies and key stakeholders to identify opportunities for capital investment, job creation, lower energy costs, enhanced system resiliency, and environmental benefits.

- **Unmanned Autonomous Systems:** Commerce is collaborating closely with the University of Maryland Test Site and, as mandated in Chapter 164, Acts of 2015, worked with industry experts to report on the benefits and opportunities of the UAS industry. The report also made policy recommendations regarding safety, privacy and the impact on certain industries.
- **Professional Services:** A new target for Commerce, the industry will be the target of an extensive outreach effort to identify opportunities and challenges to future growth among legal, financial, engineering, data management and other services.

## Education and Innovation

Enhancing Maryland's innovation ecosystem is critical to growing our economy. Commerce has taken a leadership role by developing a vision and strategies to spur the growth of Maryland's innovation economy, supporting the development, progress and employment opportunities for Maryland's citizens. Efforts include:

- **Higher Education Partnerships:** Commerce now has a full-time staffer dedicated to forging partnerships with Maryland's higher education institutions. The research and skilled workers they produce are key drivers for Maryland's economy. Avenues for partnership include improving tech transfer programs, supporting workforce training and apprenticeship programs, and developing a statewide internship initiative.
- **Advance Maryland:** The program provides extensive strategic market research data to growth-oriented, second-stage companies. Commerce partners with the Economic Alliance of Greater Baltimore to support the program and the National Center for Economic Gardening to provide research specialists to provide strategic research, guidance and advice. Now in its third year, the program has provided grants to 21 companies.
- **E-Innovation Initiative:** Created by the General Assembly in 2014, this new program provides matching funds on a competitive basis to endowments made to Maryland's colleges and universities to spur applied research in scientific and technical fields. In its first year, the program provided \$8.3 million in funding to leverage \$9.2 million in private donations toward nine new professorships at five institutions. Fields of study funded by the program include mathematics, cybersecurity, virtual reality, environment, water and public health, bioengineering, neurogenetics and human virology.

## International Investment and Trade

Commerce awarded 51 ExportMD grants totaling \$270,000 in FY2015 to help small- and medium-sized Maryland companies market their products overseas. The department's international business representatives led delegations of Maryland businesses to a number of industry events, including health care trade shows in UAE (Arab Health) and Germany (Medica). Maryland companies reported over \$85 million in export sales as a result of assistance received by Commerce's international team.

Commerce also coordinated Governor Hogan's 10-day economic development mission to South Korea, China and Japan, as well as the Paris Air Show. There, Lt. Governor Boyd

Rutherford met with many of the world's top aerospace companies and announced three deals for Maryland companies.

### **Military and Federal Affairs**

Commerce leverages the sprawling defense infrastructure and diverse federal facilities in Maryland. Headlining these efforts in 2015, the department put to work a \$2.6 million federal grant to grow the state's defense industry. Starting with a pilot project in Southern Maryland, the project will map the defense supply chain, analyze opportunities and weaknesses in the defense industry and develop a technology commercialization program.

### **Marketing Maryland**

Commerce is Maryland's marketing arm. We sell the state to companies and workers that would flourish in our high-tech, fast-changing economy.

- **Marketing P3:** As mandated by 2015 legislation, Commerce is standing up a public-private partnership to rebrand Maryland with a mix of state funding and donations. Board members have been submitted to the Senate for approval, and the governor's FY2017 budget allowance includes \$1 million to demonstrate the state's commitment to the effort.
- **Outreach:** In FY2015, print and online advertisements placed by Commerce landed 45.6 million impressions, an 84 percent increase over the year prior. Commerce's marketing arm designed and produced materials for 57 industry events where Maryland's business community, resources and assets were showcased. Digital marketing led to more than 306,000 visits to the Commerce web properties along with 40,000 interactions on social media. Media relations generated \$2.5 million in earned media in outlets like The Washington Post, The New York Times, Huffington Post and CNNMoney.

### **Tourism, Film and the Arts**

Commerce is Maryland's quality of life agency, promoting the diverse culture, rich heritage, beautiful geography and wealth of tourist attractions to residents and visitors alike.

- **Tourism:** A study of Maryland tourism advertising found that every dollar spent on the advertising campaign returned \$178 in visitor spending and about \$30 in state and local taxes. Maryland's tourism industry is the 10th-largest source of private sector employment in the State, providing more than 140,000 jobs. The governor's proposed budget includes \$12.4 million for the tourism development activities.
- **Film:** The Maryland Film Production Activity Tax Credit supported two productions in 2015 — award-winning Netflix series *House of Cards* and critically acclaimed, Emmy-winning series *VEEP*. *House of Cards* completed production on its fourth season in December 2015, using soundstages in Harford County and locations in the Baltimore region and elsewhere around the State. Season three hired 2,121 Maryland crew, actors and extras, and purchased or rented goods and services from 2,050 Maryland businesses and vendors. Preliminary numbers indicate that season four of *VEEP* hired 1,300 Maryland crew, cast and extras and purchased or rented goods or services from 1,000 Maryland businesses and vendors.
- **Arts:** The Maryland State Arts Council (MSAC) provides grants to arts organizations and programs, supports public arts projects, helps develop Arts & Entertainment Districts in

which businesses are eligible for tax incentives, supports arts education, and conducts a range of other activities to advance the arts in Maryland. A MSAC report showed Maryland's nonprofit arts sector contributed \$1 billion to the state's economy while supporting 12,100 full-time jobs in FY2014. These jobs pay \$383 million in salaries to local residents and generate \$49 million in tax revenues for Maryland's state and local governments. Every \$1 spent by arts organizations generates more than \$3 in economic activity.

#### **V. Department of Legislative Services 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.

#### **VI. Conclusion**

As the economy improves and optimism returns, now is the time to invest. Strategic investments in the sectors and businesses that move the needle for Maryland's economy are critical to maintaining our pace of growth and job creation. The funds allocated to Commerce and its programs doesn't stop here — it finds its way to businesses across the state in the form of loans, grants, tax incentives, marketing and export assistance, and troubleshooting of all manner of the issues that crop up for every business of any size. Investments in Commerce are investments in the businesses that make our economy hum.

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.

**Department of Commerce**

**Responses to the  
DLS Analysis of the FY 2017 Budget Allowance**

**Prepared for the Hearing Before the Senate Budget and Taxation  
Subcommittee on Education, Business and Administration  
February 26, 2016**



## Recommended Actions

- 1. Add language authorizing the transfer of funds (\$400,000) to the Maryland Technology Development Corporation for biotechnology business assistance activities.**

**Response:** Oppose.

Commerce feels that a transfer of funds of \$400,000 to TEDCO would harm the operations and mission of the newly created Office of BioHealth and Life Sciences. The proposed transfer of additional funds would limit the ability of this business unit to perform promotional and workforce development activities necessary to maintain Maryland's position in this important industry sector. Commerce believes that the previous transfer of funds to TEDCO complies with the legislation passed during the last session.

- 2. Delete a long-term vacant position. Duties have been transferred to another agency. \$195,527 and 1 Position.**

**Response:** Oppose.

This Senior Director position has remained unfilled as the search (approved by DBM) for the appropriate candidate continues. At present a candidate has been identified and negotiations are underway to bring that individual on board. The current duties have not been transferred and have been handled on an interim basis by an Acting Director.

**3. Add language restricting funds (\$100,000) pending a report on improvements to the Small, Minority, & Women-Owned Business Account. Also, comment on the current status of the program.**

**Response:** Commerce agrees to provide the requested report.

To date, \$28 million has been awarded to seven fund managers. From FY 2014 through FY 2016, 211 transactions have been approved for \$25.4 million to small, minority, and women-owned businesses. While geographic distribution has been a challenge, the Fund Managers have made an effort in FY 2016 to deploy funds throughout the region with transactions approved in Calvert, Cecil, Somerset, Washington, Wicomico, and Worcester County. Furthermore, there is one dedicated Fund Manager for Western Maryland. Commerce is preparing the next Request for Proposal (RFP) and is evaluating the efforts of the Fund Managers to distribute funds throughout the State. We expect there will be interest from new proposers and will be evaluating their abilities as well as the existing Fund Manager's abilities to deploy funds in the rural regions of the State.

Commerce has taken considerable steps to improve administration and performance of the fund managers. For example, in the next RFP Fund Managers will be required to define their process for identifying minority-owned, women-owned, and veteran-owned businesses, outline specific outreach efforts and the outcomes, provide credit underwriting policies and procedures, and describe specific industries sectors loaned or invested with. Furthermore, the Department is in the process of developing policies and procedures for the program in addition to specific annual reporting requirements, which include specific activity relative to portfolio performance, and include an additional audit requirement as it relates to compliance with the program. The Department is also considering expanding the targeted areas beyond the 10-mile radius to contiguous counties such as Washington, Allegany, and Garrett County as one targeted area. This would allow the Fund Managers to deploy funds to a much a larger area. Additionally, all Fund Managers input directly into the Department's Partner Portal in Salesforce. Commerce is able to see transaction activity as it happens and can run real time reports on Fund Manager activity. Commerce staff also has online access to each Fund Manager's checking account to view balances and bank activities.

Since this program is overseen by the Board of Public Works (BPW), the decision on the number of Fund Managers, timing of the RFP, and use of Commerce in house staff to manage the Fund would be at the direction of the BPW. Commerce agrees that a yearly RFP process and the managing multiple checking accounts is administratively difficult but does not see this process changing anytime soon.

**Commerce should brief the committee or comment**  
**on the following subjects:**

- 1. The new structure for Commerce and how it contributes to a more “business friendly culture”.**

**Response:**

The Department of Commerce has implemented structural changes designed to increase its focus on customer service. These efforts include:

- A) Realignment of Divisions** - Among the agency’s divisions, International was elevated due to the importance of exporting activity and international resources to Maryland businesses. The division of Military and Federal Affairs was expanded to include non-military federal agencies, which are major assets that attract businesses to the state in areas like life sciences/biohealth and cybersecurity.
- B) Expansion of Regional Team** - The number of Commerce representatives detailed to regions around the State, experts in the needs of individual businesses and communities, has increased to 12, up from 8 at this time last year. This gives each representative a smaller area to cover and allows them more time with individual businesses and also frees the director of the unit to focus on strategic regional initiatives. Additionally, the regional representatives’ roles have been expanded to include business attraction efforts in their specific territories, along with retention and expansion, moving the lead hand-off earlier in the process of a site location project.
- C) Increased Efforts Around Key Industries** – Commerce also has built out its team focused on the key sectors at the heart of Maryland’s economy. They look at industry trends and specific needs of companies that can be addressed and leveraged as business opportunities by the state. In addition to biohealth and cybersecurity, Commerce’s strategic industries’ team includes focus on energy, manufacturing, aerospace and defense and professional services. The department has also added a team member to be the conduit between Commerce and the state’s institutions of higher education and innovation, recognizing the importance of these schools and their assets to the business community.

**D) Creation of the Commerce Subcabinet** - Through restructuring, the Secretary of Commerce was tapped to bring together a subcabinet of the seven state agencies with the most direct contact with businesses in the state. The Subcabinet is coordinating on customer service, to ensure that business needs are addressed in a timely and effective manner, no matter which agency receives the initial inquiry, among other initiatives.

In addition to these structural changes, the newly issued MEDC strategic plan calls for operational excellence of employees, with specific emphasis on customer service standards that are part of performance measurement and training in the agency.

**2. Measuring the effectiveness of economic development programs is a difficult task, and the department has often struggled with finding appropriate measures. However, several efforts are underway to improve program effectiveness and accountability. DLS recommends that the department comment on its recent efforts to improve its program performance and how it has incorporated any changes into its programs.**

**Response:**

For the past 18 months, Maryland has been a participant in the Pew Charitable Trust's Business Incentives Initiative (BII). The initiative helps states identify and share best practices for collecting, managing, and analyzing data on economic development incentives. Through the BII groups from six states have been working across agencies and states to share innovations and resolve common challenges.

The initiative will culminate with the release of a report outlining effective strategies that states can use to improve their own economic development investments. That report is expected to be released soon. In the meantime, Pew has provided interim reports to each of the six states that summarize their key issue in evaluating incentives and efforts to date. According to the Pew 2014 Assessment of Maryland Business Incentive Policy and Practice, Maryland's current system of performance measurement and assessment is quite robust and is far more extensive than other states, but there is room for improvement.

The Pew team found that a major challenge for Maryland was managing the large and growing number of incentive programs. Over the past several years, the State Legislature had created a number of new incentive programs. At the same time, usage of existing programs was also growing. In addition, Commerce faced challenges in accessing confidential data from other agencies, especially the state Comptroller's Office which played a major role in state tax credit programs.

Ultimately, the team working with Maryland opted to focus on four key areas:

1. Identify program goals, key metrics and performance measures
2. Enhance data collection and data sharing practices
3. Improve and reform business reporting requirements
4. Review and refine current evaluation systems

Internally, Commerce refined its internal return on investment (ROI) tool to incorporate best practices from other states. The tool is now available for all finance team members and includes complete documentation of the methodology and sources. The performance measures for Finance programs, linked to the Department's budget request, were changed to include a ROI over 5 years. At the outset of the BII, Commerce supported an effort in the legislature to streamline the State's mandated reports. HB 67 (2015) allows Commerce to eliminate multiple reports that are duplicative of the consolidated incentives report required by the Jobs Development Act. Commerce's consolidated incentive report continues to be enhanced to incorporate best practices from other states in reporting.

Propelled by both the BII and the Augustine Commission findings, Commerce has partnered with the Maryland Economic Development Corporation (MEDCO) in conducting an assessment of the State's incentives. MEDCO hired a consultant on the Department's behalf to make recommendations relating to a range of programs. The study and its findings are expected to lead to significant and productive changes to the State's primary attraction/retention tools.

Ongoing action steps include: 1) Continued review and streamlining of agency metrics, 2) Continued support for ongoing external and internal evaluation processes, such as the work of the Tax Credit Evaluation Committee, the Augustine Commission, and as mandated by the Maryland Jobs Development Act, 3) Preliminary discussions with the Comptroller's Office regarding new

approaches to sharing data on tax credit usage, and 4) Sponsorship of an internal evaluation of all state tax incentive programs with a focus on potential redesign and consolidation of existing programs.

The report required by the Jobs Development Act has been further expanded to present information on all Commerce finance and tax incentive programs. The FY15 [Consolidated Incentives Report](#) includes information on the State's return on investment by program. In that report, Commerce has calculated broader financial impacts, such as tax revenues generated by new employees attributable to the use of state business investment programs and the return on investment. The information will be accessible on a Commerce web site: <http://commerce.maryland.gov/fund/consolidated-incentives-performance-report-fy2015>

**3. Regarding the Sunny Day Funds for Northrop Grumman – how does the proposed incentive fulfill the program's definition of an extraordinary economic opportunity and what clawback measures would be tied to the performance benchmarks.**

**Response:**

The proposed \$20 Million Sunny Day Conditional Loan disbursed over 4 years serves to anchor Northrop Grumman in Maryland through ownership of the presently leased Mission System's Linthicum headquarters. Performance conditions are an immediate \$100 Million capital expenditure and the 10-year retention of 10,000 eligible statewide positions. Employment is based on a 2 year rolling average to allow for economic fluctuations and requires a pro-rata claw back of \$2,000 per position down to a 9,000 floor after which it becomes due in full.

This is an extraordinary economic opportunity resulting in:

- \$2.1 Billion of direct economic activity.
- Retention of 10,000 positions with annual payroll of \$1.2 Billion resulting in an estimated \$90 Million in state & local personal income tax.

**4. Regarding the Film Production Activity Tax Credit Program – given the level of budgeted funding, Commerce should comment on how the film office will market the state and what activities it will pursue in FY 2017.**

**Response:**

The Maryland Film Office (MFO) will continue to proactively promote and market Maryland to the film and digital media industry to attract productions and to establish a production prospects list for the mandated July 1, 2016 report to the Governor to support an FY 2018 budget request. MFO will

- Continue to assist Maryland-based projects during pre-production, production and post-production with logistical and location information. The assistance will be directed to high budget productions such as House of Cards, as well as reality television, industrial films, documentaries, music videos, commercials, and low budget local films.
- Continue to represent Maryland before stakeholders, local governments, businesses and citizens, and assist and facilitate film education and production activities between local film makers, organizations, and educational institutions.
- Support and advise local film festivals across Maryland (currently numbering more than a dozen)
- Maintain a website which includes location, crew and production resource databases, bulletin board and event calendar