Joint Committee on the Management of Public Funds

Maryland General Assembly
Joint Committee on the Management of Public Funds

2016 Interim Membership Roster

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THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401

Joint Committee on the Management of Public Funds

December 14, 2016

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 2016 interim in the conduct of its charge to oversee the general management of State public funds. The joint committee met two times and was briefed on several relevant topics, including economic development and small business financing programs, the activities of the Comptroller's and Treasurer's offices, and audits of local governments.

A summary of the activities of the joint committee is enclosed. In addition, electronic copies of the written testimonies provided to the joint committee are available by request through committee staff Trevor S. Owen. (trevor.owen@mlis.state.md.us) or Ben Wilhelm (benjamin.wilhelm@mlis.state.md.us).

The joint committee greatly appreciates the assistance of the many individuals who participated in the activities of the joint committee during the 2016 interim.

Respectfully submitted,

Senator Jim Rosapepe
Senate Chair

Delegate Ana Sol Gutiérrez
House Chair (Presiding)

JR:ASG/BBW:TSO/cr

Enclosure

cc: Mr. Warren G. Deschenaux
Ms. Carol L. Swan
Mr. Ryan Bishop

Joint Committee on the Management of Public Funds
2016 Interim Report

The Joint Committee on the Management of Public Funds held two meetings in Annapolis during the 2016 interim.

September 21, 2016 Meeting

Economic Development and Small Business Financing Programs

The joint committee invited representatives of the Department of Labor, Licensing and Regulation, the Department of Commerce, the Maryland Technology Development Corporation, and the Maryland Small Business Development Financing Authority to address the committee regarding their economic development and small business financing programs across the State.

Department of Labor, Licensing, and Regulation

Ms. Kelly Schulz, Secretary of the Department of Labor, Licensing, and Regulation (DLLR), briefed the committee on DLLR's workforce development programs and strategies for improving the efficiency and effectiveness of those programs. DLLR runs several workforce development programs that seek to provide employment, training, and education opportunities to underserved populations across the State. DLLR noted the impact of the federal Workforce Innovation and Opportunity Act and the development of a new State plan to coordinate workforce development activities. DLLR also highlighted several programs for discussion including the new youth apprenticeship program being piloted in Frederick and Washington counties, the Maryland Business Works program, and the Senior Community Service Employment Program.

The joint committee discussed these employment programs and sought additional information in regard to program utilization, as well as the types of businesses that participated. One of the co-chairs asked about the status of new DLLR regulations that would allow employers in the State to offer competency-based apprenticeships alongside traditional, time-based apprenticeships. The Secretary informed the committee that new regulations are being drafted, but DLLR is currently awaiting clear guidance from the United States Department of Labor before promulgating those regulations.

Department of Commerce

Mr. Greg Cole, Senior Director of Finance Programs for the Department of Commerce (Commerce), briefed the committee on Commerce's role in economic development and the status of its financing programs.

The Maryland Economic Development Assistance Authority Fund (MEDAAF) is Commerce's primary financing program. MEDAAF was created from the consolidation of a number of assistance programs into a single entity with broad authority. Commerce explained the history of MEDAAF and reported a return on investment for public dollars invested in the program of 24.5 to 1 as of 2016. The committee discussed the demographic breakdown of recipients and raised concerns regarding the number of women and minority owned businesses, as well as the quality of Commerce's recordkeeping on this issue.

Commerce reported that MEDAAF has received variable and insufficient general fund appropriations since 2008, and was nearly out of available funds at the end of fiscal 2016. Commerce mentioned it had only sustained operations due to clawbacks and other repayments triggered by businesses failing to meet loan forgiveness requirements during the Great Recession. MEDAAF was characterized by Commerce as an older program for incentivizing business operations because of its reliance on forgivable loans rather than outright grants. Commerce expressed a desire for the program to be modernized to ease restrictions on when the State can provide assistance and to shift aid toward grant incentives, rather than loans. One of the co-chairs questioned whether it would be a good idea for the State to expand the use of grants.

Commerce briefly discussed the Maryland Industrial Development Financing Authority (MIDFA) and the Economic Development Opportunities Program (Sunny Day Fund), which provide loans, grants, or investments to encourage retention and expansion of existing businesses and to attract new businesses. Commerce highlighted the $20 million appropriation to the Sunny Day Fund approved during the 2016 session, which will be used to provide incentives to Northrup Grumman if approved by the Legislative Policy Committee.

Commerce also highlighted the Small, Minority, and Women-Owned Businesses Account, which receives 1.5 percent of the proceeds of video lottery terminals and provides loans to eligible businesses in the State. Commerce explained that 50 percent of these funds must be loaned within the "targeted areas" around casinos and explained the methodology for establishing those areas. The committee raised concerns about the apparent lack of accountability and objective criteria for the selection of these areas and requested additional information on the status of preparations for the new MGM National Harbor casino in Prince George's County. The committee also asked Commerce for an explanation of the decision to reallocate $2.5 million from this fund to be used to assist businesses impacted by flooding in Ellicott City. Commerce explained that the Board of Public Works has the legal authority to reprogram the funds and that they will be loaned to small, minority, and women-owned businesses in the area impacted by the flooding. The committee expressed concerns about the funding shift and noted that the Catastrophic Event Account has money available for this purpose.

Maryland Technology Development Corporation

John Wasilisin, President and Chief Operating Officer of the Maryland Technology Development Corporation (TEDCO), briefed the committee on TEDCO's investment activity and provided an overview of lending from the Technology Commercialization Fund, which reported economic output of $884 million from companies that received seed money through the program. TEDCO further discussed the Maryland Venture Fund, which TEDCO now controls as part of the 2015 reorganization of the Department of Commerce. The committee praised TEDCO's reporting and evaluation practices and discussed best practices for measuring return on investment for other State economic development programs.

Maryland Small Business Development Financing Authority

Stanley Tucker, Executive Director of the Maryland Small Business Development Authority (MSBDFA), briefed the committee regarding MSBDFA and its financial programs. MSBDFA was created in 1978 to promote the creation and expansion of small, minority, and women-owned businesses in Maryland through several direct and indirect financing mechanisms, including loans and loan guarantees. MSBDFA reported on recent performance, noting that 29 transactions totaling over $7.2 million in capital were funded in fiscal 2016 and reported a return on investment over the life of the program of 9.3 to 1.

MSBDFA also reported to the committee on the demographic and geographic breakdown of the business owners participating in its programs. One of the co-chairs raised concerns over the low number of Latino and Latina-owned businesses participating in the program, particularly in Montgomery County. The committee discussed ways in which MSBDFA could increase its profile in the Hispanic community. MSBDFA noted that they intend to seek additional State funding to develop a formal marketing strategy and expressed an intent to devote some of those materials to underserved populations.

November 16, 2016 Meeting

Comptroller's Office – Update on Activities

Comptroller Peter Franchot provided an update on the activities of the Comptroller's Office. The Comptroller's Office advises that during the most recent tax season the State collected a gross amount of $16.3 billion and processed approximately 3.0 million individual tax returns. Of those 3.0 million tax returns, approximately 2.6 million were filed electronically.

During the most recent year, the Comptroller's Office blocked nearly 11,000 fraudulent tax returns worth more than $18.5 million. In addition, the Comptroller's Office stopped the processing of returns from 61 tax preparers across Maryland who were suspected of preparing fraudulent returns. In an effort to further combat tax fraud, the Comptroller will reintroduce legislation during the 2017 session – the Taxpayer Protection Act – that seeks to strengthen the Comptroller's ability to protect Maryland taxpayers by providing the office with greater statutory authority to go after financial predators.

The Comptroller's Office also provided the joint committee with more specifics in regard to a serious error they previously noted during last year's joint committee briefing. Separate audits conducted by the State and a third party auditor over the last year discovered the Comptroller's Office accidentally misdirected $21.4 million of local income tax payments from 2010 to 2014. Municipalities in Montgomery County accounted for $8.7 million of these misdirected funds, while the remaining $12.7 million was identified in jurisdictions throughout the rest of the State. The municipalities who previously received tax revenues in error will be required to repay the State over a ten-year period beginning in fiscal 2024. The jurisdictions who were previously shorted their rightful share of income tax revenues over the five-year period will soon receive all funds from the Comptroller's Office. These payments will be made from the local income tax reserve account.

In an effort to correct the matter going forward, the Comptroller's Office also briefed the joint committee on its "Project Perfect." This plan involves technological upgrades, procedural modifications, independent biennial audits, and continuous address verifications to ensure that the Comptroller's Office does not misdirect income tax payments in the future.

State Treasurer's Office – Update on Activities

State Treasurer Nancy Kopp provided an update on the activities of the Treasurer's Office. Treasurer Kopp reported that in May 2016 all 3 rating agencies affirmed the State's AAA bond rating. Maryland is one of only 11 states in the nation with AAA ratings from all 3 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 and pension burdens 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 that help offset concerns about the State's debt burden. Standard & 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.

In September 2016, CDAC recommended $995 million for new general obligation bond authorizations to support the fiscal 2018 capital program. CDAC further recommended to maintain the authorization at $995 million in future fiscal years. With these debt levels, the debt affordability ratios remain within the CDAC benchmarks of four percent debt outstanding to personal income and eight percent debt service to revenues.

The Treasurer thanked the joint committee for sponsoring legislation during the 2016 legislative session that enabled the Treasurer's Office to invest State funds in supranational issuers. As a result of this legislation, the Treasurer's Office announced in November 2016 its decision to invest $250 million in World Bank green bonds. These bonds, which will support the financing of global climate action, have a coupon rate of 1.75 percent per annum and will mature in November 2021.

The Treasurer requested that the joint committee introduce legislation for their office during the 2017 session. The proposed legislation would seek alternative funding for public/private partnerships but had not yet been finalized at the time of the briefing.

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 2015.

OLA's report summarized the most significant and frequent problem areas his agency found during its annual review of local government audits. 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. Two local governments – Deer Park and Marydel– had not filed an audit report for fiscal years 2013, 2014, or 2015, and seven other local governments – Baltimore City, Bel Air Special Taxing Area, Mount Savage Special Taxing Area, Glenarden, Hyattsville, Morningside, and Mount Rainier – had not filed an audit report for fiscal 2015.

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.