

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 First Reader

Senate Bill 389 (Senator Miller, *et al.*)  
 Budget and Taxation

Economic Development - Maryland E-Nnovation Initiative Program - Extension and Alterations

This bill requires the Governor to continue funding the Maryland E-Nnovation Initiative (MEI) Program from fiscal 2022 through 2026 and increases the minimum funding level to \$12.5 million in those years. Tax revenues from specified electronic bingo and tip jars likewise continue to be diverted to the MEI Fund (MEIF) from fiscal 2022 through 2026. Endowments established by institutions of higher education with program funds may also be used to create research faculty start-up packages by funding infrastructure and staff to assist faculty members in their work and research. Finally, individuals in endowment-funded positions must work at least 20% of the year, instead of one day each week, in specified circumstances. **The bill takes effect July 1, 2020.**

Fiscal Summary

**State Effect:** General fund revenues decrease by \$9.1 million annually and general fund expenditures increase by at least \$3.4 million annually from FY 2022 through 2026 to meet the combined annual funding mandate for MEIF. Special fund revenues and expenditures increase correspondingly as funds are received and distributed under the program. Higher education revenues and expenditures also increase over that period as discussed below. **This bill increases and extends a mandated appropriation through FY 2026.**

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	\$0	(\$9.1)	(\$9.1)	(\$9.1)	(\$9.1)
SF Revenue	\$0	\$12.5	\$12.5	\$12.5	\$12.5
Higher Ed Rev.	\$0	\$8.1	\$8.1	\$8.1	\$8.1
GF Expenditure	\$0	\$3.4	\$3.4	\$3.4	\$3.4
SF Expenditure	\$0	\$12.5	\$12.5	\$12.5	\$12.5
Higher Ed Exp.	\$0	-	-	-	-
Net Effect	\$0.0	(\$4.4)	(\$4.4)	(\$4.4)	(\$4.4)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

**Local Effect:** Local revenues and expenditures increase from FY 2022 through 2026 to the extent that community colleges apply for and receive program funding, as has occurred under the current program.

**Small Business Effect:** None.

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## Analysis

**Current Law/Background:** Chapters 532 and 533 of 2014 created the MEI Program, MEIF, and the MEIF Authority in the Department of Commerce (Commerce). The Acts require MEIF to receive a total of at least \$8.5 million annually from fiscal 2016 through 2021. Subject to specified eligibility requirements, nonprofit institutions of higher education in the State may create research endowments and, upon securing matching private donations, MEIF funds may be distributed to the endowments. Investment earnings on the endowments must be expended to further basic and applied research in scientific and technical fields of study as specified by the Acts and as determined by the MEIF Authority.

Funds were first awarded in fiscal 2016. Commerce advises that there are 40 active grant recipients at 11 nonprofit institutions of higher education totaling \$40.7 million (following 2 rescinded awards for noncompliance with grant agreements). The institutions currently utilizing funds are the College of Southern Maryland, Hood College, Johns Hopkins University, Loyola University Maryland, Maryland Institute College of Art, Mount St. Mary's University, Towson University, University of Maryland Baltimore Campus, University of Maryland College Park Campus, University of Maryland Eastern Shore, and Washington College.

### **State Fiscal Effect:**

#### *MEIF Revenues and Expenditures – Program Funding and Outlays*

The required funding for MEIF is extended and increased to \$12.5 million annually from fiscal 2022 through 2026. The Comptroller's Office advises that the pledged revenue source in the bill – specified electronic bingo and tip jar revenues – is approximately \$9.1 million annually and has been stable in recent years. Accordingly, general fund revenues decrease by \$9.1 million annually and general fund expenditures increase by at least \$3.4 million annually from fiscal 2022 through 2026 to meet the combined \$12.5 million annual minimum funding mandate for MEIF. Special fund revenues for MEIF increase correspondingly.

Commerce is required to administer the program and may use MEIF to pay for its associated costs. The department currently has a Director of Education and Workforce that is responsible for the program, along with part-time support from an assistant Attorney General. Allocated administrative costs for these services are approximately \$50,000 annually, an amount that is expected to continue under the bill. However, Commerce must hire an additional part-time employee to assist existing staff under the expanded program. These administrative costs remain an allowable use of MEIF.

Accordingly, special fund expenditures for MEIF increase by \$12.5 million in fiscal 2022, which accounts for the July 1, 2021 increase in required program funding. This estimate reflects the cost of hiring one *part-time* grant administrator to assist existing staff with the administration of the program. It includes a salary, fringe benefits, one-time start-up costs, ongoing operating and program expenses, and grant funding.

Contractual Position	0.5
Salary and Fringe Benefits	\$39,106
Other Operating Expenses	5,208
Ongoing Program Expenses	50,000
Grants to Nonprofit Institutions of Higher Education	<u>12,405,686</u>
<b>Total FY 2022 State Expenditures</b>	<b>\$12,500,000</b>

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses and continued grant funding. The contractual position is assumed to terminate after fiscal 2026. The estimate also assumes that MEIF revenue received in a fiscal year is allocated for research endowments in that fiscal year.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State’s implementation of the federal Patient Protection and Affordable Care Act.

*MEIF Revenues and Expenditures – Higher Education Funding*

Under the assumptions discussed above, approximately \$12.4 million is available for distribution to eligible nonprofit institutions of higher education annually from fiscal 2022 through 2026. Based on existing awards, this estimate assumes that 30% is allocated to *private* nonprofit institutions of higher education, 65% is allocated to public institutions of higher education, and the remaining 5% is allocated to community colleges. Under this assumption, revenues for public four-year institutions of higher education and Baltimore City Community College, a State institution, increase by \$8.0 million annually from fiscal 2022 through 2026 from grant funding. Higher education revenues further increase from interest earned on the endowment funds beginning in that year, while higher education expenditures increase as those interest earnings are used for eligible purposes.

**Local Fiscal Effect:** As noted above, community colleges have qualified for MEI Program funding in recent years. Local community college revenues and expenditures increase from fiscal 2022 through 2026 in the same way as for four-year public institutions of higher education.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Department of Commerce; Comptroller's Office; Department of Budget and Management; Department of Legislative Services

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