

Department of Business and Economic Development

Transition Report



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Executive Summary

The mission of the Department of Business and Economic Development is “to attract new businesses, stimulate private investment and create jobs, encourage the expansion and retention of existing companies and provide businesses in Maryland with workforce training and financial assistance.”¹ The following Department of Business and Economic Development (DBED) report was created with the assistance of over 100 volunteers and extensive interviews both internal to the department as well as external. The focus of the report was to generate suggestions on how DBED could better execute the critical functions spelled out in its mission. During the transition committee’s work, five overarching issues surfaced.

1. **Strategy:** DBED does not have a series of longer term relevant strategies to ensure Maryland’s status as a national leader in technology, life sciences, defense, and entrepreneurship. The Maryland Economic Development Commission, or other appropriate advisory body, should work with DBED’s relevant staff to develop long range plans by industry at a State wide level. Advantages such as the availability of a highly educated workforce and geographic location in the center of the Mid-Atlantic region make Maryland a great place to do business. The expected economic growth as a result of Base Realignment and Closing (BRAC) and the proliferation of the State’s strong biotech industry are opportunities that must be managed properly. Several recommendations to insure Maryland’s leadership in these key industries include: An expanded role for the Office of Military Affairs to prepare for BRAC, inter-agency and executive coordination to manage BRAC related growth, and a focus on attracting the skilled labor affected by BRAC in other states to Maryland. In life sciences and technology, there is an opportunity for the State of Maryland to work with the private sector to significantly increase investment into early stage companies. Recommendations include creating a Maryland fund of funds that invests in venture funds targeting Maryland companies, establishing a Governor’s advisory board for technology and venture capital related issues, increasing tenant improvement funds available for early stage, venture-backed companies entering our new research parks and continuing support of proven programs in seed funding and tech transfer such as the Maryland Venture Fund’s (a.k.a. Enterprise Investment Fund) and TEDCO. Critical to any strategy is communication. DBED should create a statewide marketing and branding programs that promotes the strengths of our various regions and the opportunities in our key industries.
2. **Funding:** DBED’s current financing programs have been not been adequately funded over the last 4 years. The State must insure that the financing programs needed to support the State’s growth strategy are sufficiently funded. Sunny Day has not been funded for several years, and the MEAF was also unfunded and therefore closed no transactions in 2006. Further, the MEDAAF has seen funding reduced in recent years. Insufficient funds have the result of driving the program toward small grants versus loans (which require larger sums) in order to maximize reach. Apart from fully funding the financing

¹ <http://www.choosemaryland.org/AboutDBED/AboutDBEDIndex.html>

programs, it is also important that the process for applying and accessing funding be simplified and streamlined; especially for small and minority business programs.

3. **Small and Minority Business:** DBED needs to improve the services it offers to small and minority businesses. As Maryland businesses thrive, DBED must remain committed to an inclusive agenda by enhancing participation of small and minority businesses. This community stressed throughout this process that DBED needs to improve accessibility in several areas. DBED must simplify the bidding process to make it easier for small and minority business to submit bids for State contracts and make it easier to access business help. One recommendation is placing minority business representatives in DBED's regional offices to increase support and access as businesses seek guidance on contracts and finance programs. DBED should also clearly delineate lines of responsibility among all the State entities that correspond with small and minority businesses. Additionally, it is important to measure performance. DBED and the new Administration should take steps to ensure to implement a better and timelier measurement system for MBE/WBE participation by various State agencies.
4. **Organization structure and communication:** The current matrix structure has made accountability and collaboration with outside partners confusing. There is a perception of disconnect between regional offices and other operational units within DBED. It is important that roles and responsibilities be clarified and that the organizational structure be reviewed. It is also important that the Department do a better job of communicating the strategy and key initiatives with local economic development offices and partners. It is strongly suggested that the Department re-establish quarterly gatherings as the Secretary level with key partners.
5. **Tourism, Film and the Arts:** DBED's central challenge related to tourism, film and the arts is to better coordinate the state's investments, to maximize limited resources, to strategically leverage new investment and to provide adequate support and funding for programs which have a demonstrated record of success. First and foremost a search for a Director of Tourism with significant experience in destination marketing must be conducted. The Director will lead the effort to maximize the promotion of Maryland's attractions and accommodations, to leverage new funding, and to generally position Maryland as a competitive destination worldwide. Just a few years ago Maryland was one of the top five states in the country for film production. Today it has fallen drastically due to the number of other states who offer lucrative incentive packages. Those states are now reaping the economic benefits of film productions. If Maryland is to grow, or simply maintain its film industry, the funding of the film incentive program must be substantially increased; otherwise we stand to lose this important industry.

All of these themes and general recommendations are explained in further detail throughout the following report.

I. Business Development and Marketing

Business development and marketing is responsible for selling Maryland to prospective companies and organizations primarily outside of Maryland. This business unit includes the DBED business development teams, business information services, and a business development marketing team; in total 55 employees. DBED currently has a structure of 5 specialized business development teams: International Operations, Site Consultants, FIRM, Advanced Technologies and Biosciences.

Problem Identified: Strategic Plan for Marketing and Development

The DBED industry teams' focus has allowed them to be significantly better prepared to service strategic prospects, such as bio-tech and advanced technologies. However, the industry teams and the State have not yet developed a clear long-term strategic plan for how they will focus their marketing and development efforts. Consequently, there are few clear and relevant metrics to track the progress of these industry teams. Given the matrix management structure, there have been some challenges with internal and external communication and roles.

➤ **Recommended Actions:**

➤ **Strategic selling**

- DBED's industry teams do not have long-range strategic plans for their industries. The Maryland Economic Development Commission, or other appropriate advisory body, should work with DBED's relevant staff to develop long range plans by industry at a State wide level. These plans should act as a roadmap tied to the marketing and business development focus and the industry teams' metrics.
- DBED should look for strategic cost effective ways to highlight the State's competitive advantages for specific companies. In each of its core industries DBED should consider developing a series of topic-specific white papers on "Why Maryland?". In other words, writing and arming all their business development staff with simple leave behinds on topics that are relevant to expanding firms in that industry and how the State of Maryland is focused on assisting those types of firms. In life sciences, the first paper could be on dealing with regulatory agencies such as the FDA and how Maryland can help. This would be an interesting topic to any emerging biotech firm both inside and outside the state. In IT/Defense the first white paper may be on how to do business with Government agencies and the subtext is why you need to be close to your customers. In other words why you need to be in Maryland.
- DBED is not flexible in the manner with which they assign resources to focus on new emerging opportunities. DBED's resources have a tendency to drift towards whatever deals are in the pipeline rather than the long-term focus.

➤ **Implement relevant metrics**

- Review Managing for Results (MFRS) for every department including organization wide MFRS to insure that they are capturing the most relevant metrics. Develop the metrics to track the strategic plan by industry.

➤ **Fund a statewide marketing effort**

- DBED needs to do a better job communicating what the Maryland “product” is and how firms are benefiting. Maryland’s performance, business climate, and quality of life are not well understood in the national market. DBED needs to cultivate a group of satisfied business leaders and document their experiences and testimonials.
- DBED should evaluate re-establishing its State wide marketing and branding program.

➤ **Coordinate with partners**

- There is confusion regarding the roles of state, regional and local agencies. There is a need to develop a process to ensure better coordination and to develop clearly defined state and local roles.
- DBED should partner to a larger extent with regional economic development groups and councils. These partnerships should be on a strategic as well as day-to-day level. This will enable them to leverage private sector dollars in support of their objectives.

➤ **Internal Organization**

- Good organizations start with a strong team. It is critical for DBED’s success that they focus efforts on hiring strong professionals.
- The matrix management structure has created confusion about internal roles at DBED. There is a need to clearly delineate accountability between regional offices and business development industry teams.
- There needs to be a weekly process at a senior level to insure that business prospects are assigned to the correct business development team and person.
- DBED should evaluate creating a team for resource- and transportation-based industries.
- The regional teams, industry teams and other functions (such as finance) must work closely together. Not physically being on the same floor inhibits teamwork and results in a lack of partnership among the teams. Evaluate the current floor plan and how to co-locate relevant functions.

- Evaluate refocusing the Advanced Technology Group to work on IT/Defense firms affected by BRAC.
- Retention should be locally-driven. The State should be responsive to the retention needs of local jurisdictions; and be ready to provide support where requested.
- The style of enforcement related to permitting and regulation is very important. Firms and local economic development groups need DBED to serve as an advocate to resolve issues.

II. Economic Policy, Research and Legislative Affairs

Introduction

The Division of Economic Policy, Research and Legislative Affairs (EPRLA) has a mission to provide timely and accurate analysis of Maryland's economy and business policies for the Department of Business and Economic Development (DBED), the Governor's Office and other government agencies. EPRLA is responsible for developing DBED's legislative agenda, research and promoting economic policy initiatives and administering tax credit programs. The Division has three primary functional areas: (1) legislative affairs and policy development; (2) economic research and analysis; and (3) tax credit administration and tax policy analysis.

FIRST PRIORITIES

Problem Identified: Enhanced Capabilities

In order to for DBED to develop meaningful longer-range strategic plans for the State's economic growth, economic research capabilities require strengthening. Additional recruitment of economists and research specialists is necessary to provide proper analysis to the Secretary and Governor. Additionally, current economic research capabilities are scattered in different divisions throughout DBED.

- **Recommended Action:** Centralize and enhance DBED's research capabilities to more thoroughly serve the entire Department and Governor. Recruit additional economist and research specialists. Service enhancements can be realized by a centralization of current capabilities, including a consolidation of DBED marketing strategists and other current internal research capabilities within EPRLA.
- Task EPRLA staff to work with the Economic Development Commission to create a Maryland strategic plan for economic development. Current statute requires the Commission to annually update a strategic plan. EPRLA can, under existing resources, undertake a comprehensive review of economic development trends and best practices in order to start assisting the Commission in the formulation of strategic planning efforts. This should also include the development of specific plans for the State's most promising growth industries. Strategic planning for economic development will allow DBED to carry out an economic development strategy based on a clear mission with measurements and goals.

Problem Identified: Elimination of Redundant Service Contract

Current contract with Towson University for staffing/management of the Economic Development Commission replicates existing capacity at EPRLA.

- **Recommended Action:** The current contract to staff and management the Economic Development Commission should be canceled and those duties moved to EPRLA, where they can be accomplished with existing resources. Existing EPRLA staff can absorb these duties at no additional cost to DBED. The potential cost savings are approximately \$100K annually.

- **Recommended Actions:**
 - Build policy capabilities to better serve the Governor and Secretary. The enhancement of policy expertise and capabilities can be accomplished in conjunction with enhanced DBED economic research capabilities. One of the major roles of EPRLA is to advise the Secretary and Governor on economic development policy based on best practices. With an enhanced research capability, EPRLA can better provide economic development policy recommendations.

Other Recommendations to Consider:

- Approve three currently pending legislative proposals. Of the 11 DBED legislative proposals submitted to the Governor's Legislative Office, it is recommended that only the following legislative proposals be considered for introduction as DBED Departmental legislation for the 2007 session of the Maryland General Assembly:
 - 1). *Business and Economic Development - Financing Programs* - makes technical or clarifying changes to some financing programs including the One Maryland program and the Maryland Economic Development Assistance Authority and Fund (MEDAFF).

 - 2). *Biotechnology Investment Incentive Act* - changes waiting period to receive credit, alters the credit caps and makes administrative changes.

 - 3). *Film Wage Rebate – Employer Wage Rebate Program* - alters the basis of the film wage rebate from wages to production costs and removes the per project cap from the film incentive program.

III. Venture Capital

Maryland has one of the highest concentrations of life science and technology firms of any State in the country. With world-renowned government institutions such as the NIH, FDA, NASA, NSA and education institutions such as Johns Hopkins University and the University of Maryland system, Maryland has some of the strongest assets to support future growth in both life sciences and technology.

Problem Identified: Creation of Fund-of-Funds

There are only a handful of seed and early stage funds that make investments in the biotech sector in the Mid-Atlantic region. Given the State strengths in biotechnology and new significant investments in biotech parks surrounding both the Johns Hopkins and the University of Maryland, access to early stage capital will be critical for new company formation. There is a need to bring more seed stage capital to fuel the growth in this sector.

- **Recommended Action:** In order to increase the number of funds willing to actively invest in early stage companies in the State of Maryland, create a fund-of-funds (or revive the Maryland Venture Capital Limited Trust) as a vehicle for the State (not the pension fund) to invest significant amounts of money (\$5-10 million or more/year) in venture capital funds. In return, the funds would then commit to a “best-efforts” to invest a minimum of the State’s invested dollars (or possibly a 2-3x) into Maryland based companies. A financial investment in a fund has been shown to be one of the most effective ways to get the attention of venture funds to look at companies associated with the organization making the investment. The State should seriously consider out-of-State top-tier funds and newly or recently created seed and early stage funds for investment as well as local funds. Limiting eligible funds to those with offices in Maryland would be counter-productive, since the goal is to increase the number and variety of funds that will invest in Maryland-based companies. The historic returns of such investments through the Maryland Venture Capital Limited Trust, both in terms of financial as well as economic development, were impressive. However, in order to maximize both, a multi-year commitment to an effort like this is necessary to reduce the risk of investing in sub-performing fund or a bad “vintage” year fund.

Problem Identified: Support of Biotech Investment Tax Credit

The Biotech Investment Tax Credit (BITC) program was extremely popular in its first 6 months of funding. In fact, this program exhausted the entire \$6 million budget in those first 6 months, which means that Maryland biotech companies benefited from at least \$12 million of funding, mostly in the form of angel investment. However, the administrators of the program at DBED identified numerous flaws in the bill that need to be fixed before the next fiscal year in order to reduce the risk of abuse and increase the economic impact to the State.

- **Recommended Action:** The Administration should strongly support the changes being recommended by DBED. Last year, amendments were proposed but they never made it out of committee. Also, the administration is urged to continue to fund the BITC at levels equal to that of FY07 or greater if recommended amendments are passed. The FY07 budget was

exhausted in 6 months, so serious consideration should be given to increasing the program's budget.

Problem Identified: Support of Enterprise Investment Fund and early stage companies

The Maryland Venture Fund's (a.k.a. Enterprise Investment Fund) provides critical seed and early-stage capital to Maryland-based companies that have the great potential to become venture capital financed in 18-24 months post-financing. In FY06, the Maryland Venture investment budget was initially set at \$1.5 million after 5 years of averaging more than \$5 million. Only after a mid-year budget supplement of \$4.5 did the Fund get returned to its historic funding levels of approximately \$6 million.

This program has a 12-year track record of success. Based on the investment requirements, the program mandates a 3-to-1 match by private sector investors, thus a \$6 million investment in this program automatically leverages a minimum of \$18 million in venture capital investment in Maryland based companies by private sector venture capitalists. Historically, the portfolio companies have risen well in excess of \$400 million in equity financing, not counting public funding (through IPO's) or grant funding. Also, the program has returned over \$55 million to the State; however, many of these returns have been diverted to other programs in the past. As written in the statute, all returns from the program should remain in the program's "special funds" account to fund continued operations in future years. However, the Fund should not be dependent on returns for future budget cycles since fund return activity is extremely cyclical.

- **Recommended Action:** The Administration should continue to support the Maryland Venture Fund's investment budget at historical levels (\$5-6.5). Likewise, maintain its operations budget to support the large portfolio of companies that have been funded by the Fund as well as the management of the Biotechnology Investment Tax Credit program.
- **Recommended Action:** Increase tenant improvement funds available for early stage, venture-backed companies entering new research parks (DBED's Sunny Day Fund). Likewise, reinstate the incubator development fund with the requested \$2 million enhancement to assist existing (UMB, EBDI) and new (Horn Point/Eastern Shore) incubators with capital projects

Problem Identified: Maintain Funding for TEDCO

TEDCO has a 6-year track record of success. Companies funded by TEDCO have generated \$27 in follow-on funding for every \$1 invested.

- **Recommended Action:** Maryland TEDCO programs budget should be maintained at current levels. Consideration should be given to increasing the maximum award dollar amount per company, particularly for MTTF companies or UTDF projects that have demonstrated success with the initial awards and have the greatest likelihood of garnering down-stream venture capital financing.

➤ **Other Venture Capital Related Recommendations to Consider:**

- Establish a Governor's advisory board for technology and venture capital related issues to create a more unified technology and biotech community within the State. The function of this board would be to oversee follow through on recommendations made by transition team, Pappas report, metrics/evaluations of existing programs, etc. as well as voice needs and concerns of the technology and venture community. The members of the board should primarily come from the private sector – venture capitalists, entrepreneurs – as well as from the State-funded venture capital/technology program managers and managers of the technology transfer offices within the State – USM, JHU, federal labs, etc.
- Encourage the Maryland Pension Fund management to continue to analyze the Fund's private equity allotment and strive to match those of other State's that rank in the top 15. Significant progress has been made in this area since the Pappas Commission but targets have not been reached.
- Continue State support of academic and translational research in the areas of stem cells and nanotechnologies. These areas are still too early for VC and private sector participation. Likewise, implement many of the ideas put forth in the proposed University System of Maryland's technology commercialization plan, currently under consideration by the University Regents, particularly in the areas of proof of concept funding, technology transfer and venture creation.

IV. Base Realignment and Closing (BRAC)

Introduction

In 2005, the Pentagon announced plans to close approximately 180 military installations hoping to achieve \$50 billion in cost savings over the next 20 years. When the final Base Realignment and Closure (BRAC) recommendations were signed into law in November of 2005, Maryland became one of a handful of states to significantly gain from the relocation of new mission operations and high paying jobs.

Problem Identified: Proper Preparation for Population Surge

BRAC offers the possibility of over 60,000 new direct federal and related private sector contractor jobs over the next decade. These projected increases will provide many economic opportunities within the affected communities. While BRAC has the potential to transform the State's economic, employment, transportation, and housing landscapes for generations to come, the State must be proactive in addressing transportation, workforce, education and workforce housing issues. This State must also seize this opportunity to present Maryland as a welcoming place to live and work for the highly skilled workforce affected by BRAC.

➤ **Recommended Actions**

- The Governor should significantly expand the office of Military Affairs. This office should be the main contact on federal/military facility retention and development issues. Evaluate using the current Governor's office of business advocacy as model structure for this expanded Office of Military Affairs.
- Create an inter-agency senior level task force chaired by the Lt. Governor and convened by the Governor's office of military affairs focused on coordinating the BRAC response across all relevant agencies.
- Fund a significant marketing outreach plan to convince affected BRAC employees in Northern New Jersey and Northern Virginia to consider re-locating to Maryland. These are highly skilled workers that can help insure that the BRAC transition goes smoothly and would be significant contributors to Maryland's economy.
- Provide the Governor's Office of Military Affairs with the authority to monitor the development and adherence to a schedule/execution timeline to assure Maryland is in step with the federal government, in terms of progress with implementation of BRAC recommendations as required by federal law via the Department of Defense (DoD).
- Make the Governor's Office of Military Affairs a clearinghouse for all BRAC-related information, to include potential grant funding sources, contracting opportunities and status of DoD implementation efforts.
- Give the Governor's office of Military Affairs, although separate from the Business Development and Marketing, a strong role in developing any IT/Defense strategy for the Advanced Technology Group.

V. Finance Programs

DBED administers a number of finance programs to assist existing companies and to attract new companies. When funded adequately, these programs have been very rewarding. However, the financial commitment required to make these programs effective has dropped off in the past few years. Several of the funds highlighted below are the:

- **Sunny Day Fund:** Funds are loaned, granted or invested to assist in the retention and expansion of existing business, or the establishment and attraction of new business in Maryland
- **Maryland Economic Adjustment Fund (MEAF):** Assists in the funding of projects to address economic adjustment problems resulting from closure or downsizing of defense facilities
- **Maryland Economic Development Assistance Authority Fund (MEDAAF):** Makes capital appropriations in the form of loans for major economic development projects.

- Maryland Small Business Development Financing Authority (MSBDFA): Provides funds targets to the development and small and minority businesses.

Problem Identified: Adequate Funding

The Subcommittee finds that the most significant problem facing the Finance Programs lies in funding rather than the structure of the programs. Sunny Day has not been funded for several years, and the MEAF was also unfunded and therefore closed NO transactions in 2006. Further, the MEDAAF has seen funding reduced in recent years. Insufficient funds have the result of driving the program toward small grants versus loans (which require larger sums) in order to maximize reach.

- **Recommended Action:** DBED should pursue additional funding for these programs where possible. This is particularly acute in the case of MEDAAF, which is a central program to DBED effort. Where funding cannot be secured, consideration should be given to consolidating / eliminating the programs to eliminate confusion for businesses seeking to access those programs

Problem Identified: Assistance to Small and Minority Business

The Subcommittee finds confusion and a sense of inadequate focus on meeting the needs of small and minority businesses.

- **Recommended Action:** DBED should seek to consolidate and better coordinate small business financing programs where possible. Currently, responsibility for small business financing programs is diffuse. Small business financing programs exist within DBED (MEAF), on a contract basis (MSBDFA) and externally at DHCD (Neighborhood Business Works and Capital Access Program). To maximize impact, greater coordination and integration would be highly desirable.

Problem Identified: Streamline Application Process

The Subcommittee received feedback that DBED programs remain opaque from a user perspective and that the application process is cumbersome relative to traditional financing sources.

- **Recommended Action:** The Subcommittee suggests that DBED seek to streamline and clarify programs and applications where possible. While the number of programs has been reduced, identifying which program is available to a potential applicant can still be difficult. Likewise, feedback suggests that the information required of potential counterparties can sometimes exceed that required from private lending institutions.

Problem Identified: Access for Non-Profit Entities

The Subcommittee received feedback that its programs, particularly MSBDFA, are not accessible to non-profit entities.

- **Recommended Action:** Given the critical role of the non-profit community to the state's economy, the Subcommittee suggest that DBED clarify and facilitate access to programs for qualified non-profit entities who are creating / retaining jobs in the community.

Problem Identified: Define Role of Managing Director

The Subcommittee notes that the Assistant Secretary for Finance Programs position has been eliminated. While an elevated Managing Director is filling the responsibilities, this structure should be re-evaluated by the new administration. Absent an Assistant Secretary, the influence of this critical function risks being reduced - internally or externally.

- **Recommended Action:** The viability of the current structure depends on the skill level and influence of the Managing Director (non-AS) running the department. While the former may be adequate, should the current situation be maintained, the new Administration must re-affirm that the Managing Director is a senior team member - on par in terms of internal and external influence with an Assistant Secretary.
- **Other Recommendations to Consider:**
 - Encouraging the development of a double-bottom-line private equity fund for business development. Maryland's DHCD supported such an initiative, including a feasibility study, which is resulting in the creation of the Maryland Workforce Housing Fund led by Enterprise Community Investment. While the Workforce Housing Fund will raise all private capital, this effort nonetheless is benefiting from the active support of DHCD. A similar structure could be used to create a capital pool for non-real estate activities within the state, supporting business development versus housing. This extension beyond real estate has been replicated by similar funds in Los Angeles.
 - Potentially creating an independent, non-profit corporation that could qualify as a recipient of New Market Tax Credits. The City of Phoenix has employed a similar strategy, as has the State of Wisconsin.
 - Exploring a real estate fund for infrastructure loans and grants patterned on UDAG to acquire sites, to improve sites, and to assist in infrastructure, including, in addition to roads, sewer and water other utilities. This program would be funded by a loan and grant pool.

VI. Small Business

The new Administration should do everything that it can to improve DBED's relationship with the small and minority business community. Access to contracts, ease with the bidding process, and access to venture funds tend to be more difficult for small businesses than for large businesses, often to the point of discouraging participation. The DBED Secretary and staff need to evaluate all of the different ways that it interacts with the small business community to identify opportunities for improvements.

Problem Identified: Enhancements to MSBDFA

The small business community (including MBE/WBE) does not have adequate financial resources to enable them to participate in large contract opportunities, engage larger clients, or acquire a substantive existing business. There are many small business finance programs, but this committee recommends the new administration focus on funding and providing accessibility to the Maryland Small Business Development Financing Authority (MSBDFA).

➤ **Recommended Action:**

- Increase the capital base of the MSBDFA programs to \$25 million during the term of the new administration – \$5 million of that total for fiscal year 2008, and \$6.2 million during each of the following 3 fiscal years.
- Increase the maximum financing for the Contract Financing Program, the Long-Term (Loan) Guarantee Program, and the Equity Participation Investment Program (“EPIP”) from \$1 million to \$2 million.
- Create more flexibility among MSBDFA’s current capabilities by:
 - 1). Removing the \$75K net worth/collateral requirements of the EPIP business acquisition component. This component is rarely used because of the onerous collateral requirement on top of the requirement for a substantial infusion of equity into the business.
 - 2). Increasing the 25% limitation of EPIP participation in a business acquisition transaction to 50%. This limitation has proven to be onerous because obtaining the balance of the required financing from traditional sources continues to be extremely difficult for minorities, women and other persons who are economically disadvantaged.
- Permitting small businesses to also receive bonding under the Surety Bond Program for projects funded by private finances as well as finances from government agencies and regulated utilities.

Problem Identified: Access and Accountability

MBE/WBE participation (often small businesses) continues to lag behind legislated award goals of 25% overall, 10% for WBE, and 7% for African American business. This committee believes that much of this lag is due to lax reporting standards and the difficulty to access contracts by small and minority businesses. Compliance reporting of MBE participation is done annually, sub goal information is not available and historical data has been inaccurate. The committee believes that the following recommendations will improve reporting and increase participation by small businesses, including MBE/WBE’s.

➤ **Recommended Actions:**

- Fund the implementation of the Central Bidders Registration (CBR) internet development/procurement portal so that prime and subcontractor reporting can be submitted online. Combine with the Department of General Services's eMaryland Marketplace to provide uniformity among procurement systems. Data would be "near time" and accurate.
- Agencies should be required to report small business and MBE/WBE participation on a regular basis through StateStat, data would be "near time" and accurate through the CBR.

Problem Identified: Communication Among Small Business Advocacy Programs

The State has various offices and groups within its existing framework that promote the growth of small businesses. However, communication and collaboration between these groups appears limited. These small business advocacy programs should be reviewed to maximize their efficiency; the recommended actions below provide some suggestions for this review.

➤ **Recommended Actions:**

- The Small Business Development Center Network (SBDC) provides an effective infrastructure to support small business education within the state and can be used as the "single point of entry" to track when/why a small business seeks assistance from the government. The Administration must be committed to continued financial support for SBDC.
- Greater coordination and integration of the various programs generated from GOMA, GOBA, SBDC, DHCD (Neighborhood Business Works and Capital Access program) can maximize impact and benefit.
- Evaluate partnership/relationship between Governor's office of Minority Affairs (GOMA) and DBED's Governor's Office of Small Business Assistance (GOBA)
- Reexamine the geographical distribution of the staff, consider putting more people in regional offices to support local SBDCs and community outreach programs
- Continue education/outreach efforts. Maximize efforts by consolidating programs and standardizing marketing efforts.

VII. Regional Office Structure

Introduction

The Sub Group on DBED's Regional Office Structure and the Sub Group on DBED's Business Development and Marketing has consulted with numerous individuals within and external to DBED, and concludes that there is great support for a field presence for DBED. Feedback was consistent that DBED's role and assistance are highly valued, and state support has been considered critical to successfully landing many significant business prospects and retention wins. Nevertheless, a consistent theme was a breakdown in communication both within DBED and with local economic development offices. A "disconnect" between regional offices and other operational units within DBED, especially finance and business development, was also reported. While this report includes commentary on DBED's current and recommended organizational structure, it was routinely acknowledged that individuals' professional experience and training in economic development and commitment to communication, meaningful coordination, and partnerships would supercede any lines on an organizational chart.

Problem Identified: Structure of Regional Offices

The concept of a regional office or field presence for DBED is highly regarded, but internal operational issues and external interactions with local economic development offices and other entities require improvement.

➤ Recommended Actions: Overview

- Retain and consider expansion of regional/field presence of DBED, but review the geographical structure and organization.
- Re-examine current three Assistant Secretary format and consider centralizing regional offices under one Assistant Secretary; individuals with strong professional qualifications should be recruited for leadership of geographical sub-units; each such individual should be held accountable for the performance of their respective regions through goals set and aligned with established outcomes for specific regional offices.
- Primary focus of regional offices should be on businesses that have location choices - the option of locating or relocating their operations outside of the region or outside of the State.

➤ Recommended Actions: Internal organization

- Develop and/or refine the structure for "internal teaming" within DBED by regions, so that within the Matrix management system there is greater clarity about contact points in different DBED operational units. Review procedures for access to members of DBED regional teams to improve customer satisfaction and communication flow.

- Coordinate regional and business development operations better to insure full access to expertise within DBED to all geographical sub-units. Clarify that business development is the lead within DBED on new prospects and RFPs and establish clear protocols for prospect handling with local economic development offices.
- Clarify that retention is locally driven and provide for full coordination by DBED with local economic development offices on all retention efforts; within DBED, establish clear protocols for retention efforts to avoid duplicative retention activities. Quantified goals for individual staff should provide incentives for coordination and communication with local economic development offices and their priorities.
- Review management controls for deal-making and statewide prioritization of prospects to insure appropriate high-level oversight of regional efforts, and to improve coordination with regional office staff and finance and business development staff.

➤ **Recommended Actions: Communication**

- Re-establish quarterly gatherings at the Secretarial level with local economic development offices for the purposes of improving communication, information exchanges, coordination of efforts, etc.
- Provide for regular communication within DBED on regional retention and business development activities.

➤ **Recommended Actions: Programs**

- Evaluate expanding the World Class Manufacturing Consortium to other industries such as software. For example, develop a World Class Software Consortium that would allow to Maryland software firms to significantly increase the number of firm with specific certification necessary to bid on federal government and Fortune 500 company contracts.

➤ **Recommended Actions: Resources**

- In support of regional retention efforts, restore the appropriation for MITP and PQW from the current FY07 level of approximately \$4.1 million to FY03 levels of approximately \$8 million (figures need to be verified), and provide for greater coordination of workforce resources within the State.
- Re-establish a statewide marketing and branding program, require DBED to create a common message identifying the strengths of the various regions, and have DBED work to position the entire State for business marketing purposes.
- Evaluate funding a World Class Software Consortium for Maryland based firms.

VIII. International Operations

Introduction

DBED has tremendous opportunities abroad to promote the services and resultant growth of Maryland companies. However, the committee believes that the International Operations division can do better to ensure that Maryland companies are taking advantage of the ever-globalizing world economy. Furthermore, as Maryland's population becomes more and more diverse, DBED must do all it can to ensure that the State's economic landscape reflects that diversity.

Problem Identified: Market Maryland Companies in Developing Countries

There are billions of dollars in infrastructure needs to be met in developing countries like India and China within the next decade, but Maryland companies are not positioned to develop and manage such projects.

- **Recommended Action:** A strategic plan should be quickly developed and implemented within the International Operations division. The plan should focus on both targeted industries and international markets where DBED's presence will make a difference, i.e., where Maryland companies want to do business and where DBED can draw in foreign direct investments.

Problem Identified: Use of Metrics to Determine Resource Allocation

Current metrics appear to be weak for determining in which countries DBED should have foreign operations. Some country office placements seem to be based on the judgment call of a few individuals rather than solid metrics.

- **Recommended Actions:**
 - Strengthen DBED's research capabilities to determine and incorporate the correct metrics for foreign office site selection and budget allocation.
 - The Governor's Chief of Staff or appropriate Deputy Chief of Staff should provide overall Administration coordination of the various international affairs efforts currently housed in different State agencies including DBED, MDOT (Ports), Secretary of State, MDA, and MDE.

Problem Identified: Strengthen DBED's Research Capabilities

It does not appear that many Maryland companies know about the programs and assistance offered by DBED. This is primarily the result of International Operations not having sufficient funds or control over their website and other marketing mechanisms. DBED needs to do a better job of promoting its services to MD companies. This is essential for many reasons including the

fact that DBED promotes itself as taking on countries and industries that 'the market' demands. Such a view can be very skewed if only a limited segment of the market is aware of DBED's services.

- **Recommended Action:** International Operations must have a current and more user friendly website.

Problem Identified: Market DBED's Services to Small Foreign Companies Better

Sustainable international business development services and assistance to small businesses, MBEs, and Maryland's immigrant communities seem weak. The African, Latin American and Asian immigrant communities in Maryland can make a big impact in the State's economy. Targeted efforts can attract foreign investment, which will boost Maryland's overall wealth.

- **Recommended Action:** DBED's International Operations should be more customer friendly and provide help to small businesses and MBEs venturing into the international arena by developing linkages between the Maryland and International business communities.

Problem Identified: Transparent Selection of Country Representatives

Transition subgroup members were not clear or comfortable with DBED's process for selecting country representatives and how country representatives' time is allocated between helping International Operations and Maryland companies and non-Maryland companies. DBED pays for in-country contractors instead of providing local grants to significant foreign-born communities in Maryland.

- **Recommended Action:** The Maryland-Israel partnership model should be viewed as an alternative to DBED paying consultants, especially in countries where Maryland has a significant population (such as India, Korea, and Latin countries). The RFP/bid process for selecting Maryland International Operations representation should be transparent and available to the public.

Problem Identified: Assistance to Maryland's Export Companies

In today's age of globalization, exporting represents a crucial component to Maryland's long-term economic health. DBED may not be well positioned to provide export assistance to the state's new or existing export companies.

- **Recommended Action:** Create an Export Advisory Service in the department of International Operations to help facilitate training, education and services tailored to meet the needs of exporters who are new to the international market as well as more experienced businesses.

Other Recommendations to Consider:

➤ **Recommended Actions:**

- Relationship-building with organizations such as the World Bank and USAID should be elevated to a higher level than “trade specialist.”
- The ExportMD grants program should be examined to see if it is producing proper Return on Investment (ROI), such as job creation.

IX. Tourism, Film and the Arts

Introduction

The mission of the Division of Tourism, Film and the Arts (DTFA) is to promote economic development of Maryland by enhancing and marketing the attractiveness of cultural activities, historical sites, recreation centers, and locations for film and television productions. The division has an overall budget of \$37.9 million and a staff of 51. The most recent economic impact figures available include: the Office of Tourism Development: \$11 billion (2005), the Film Office: \$158 million (2006) and the Arts Council: \$1.5 billion (2006) The Office of Tourism Development and the State Arts Council report to Boards of Directors appointed by the Governor.

The Office of Tourism Development (OTD)

Maryland attracts more than 21 million visitors each year and the number continues to grow. The administration needs to analyze the competition from other states, to review these competitors' funding models and best practices, in order to grow market share of the lucrative travel and tourism segment. In addition, the role of the Maryland Tourism Development Board needs to be clearly defined to serve as the hospitality industry's voice and oversight of the Maryland Office of Tourism.

Problem Identified: Funding levels are not keeping pace with the competition

- **Recommended Action:** Identify funding challenges and work with the Maryland Tourism Development Board, Maryland Association of Destination Marketing Organizations and the private sector to develop strategies to increase future funding levels.

Problem Identified: Accountability

➤ **Recommended Actions:**

- Research best practices for lead tracking system and conversion (trade shows, advertising and other marketing initiatives) and report quarterly to the Maryland Tourism Development Board.

- Request that the Maryland Tourism Development Board retain a contractor to create performance measurements for all marketing and advertising efforts and activities of OTD, including sales and marketing strategies.
- Take immediate action to upgrade the OTD website. Form an industry and consumer focus group to provide an evaluation on the current website and make recommendations for improvements.
- Focus on bringing major sporting events to the state; identify appropriate additional trade shows and other marketing/advertising and funding opportunities to attract this growing market segment.

Problem Identified: Organizational Structure

➤ Recommended Actions:

- Review the legislation that created the Maryland Tourism Development Board (MTDB) to determine the mission, and review board appointments to ensure representation of the diversity of the hospitality industry sectors. Evaluate successes, challenges and best use of marketing dollars allocated to the Board.
- The Division has been managed by an Assistant Secretary; however, the Assistant Secretary has also functioned as the Director of the Office of Tourism. Historically, the Office of Tourism Development has been overseen by a full-time Director. A search should be conducted for a Tourism Director with significant experience in destination marketing.

Problem Identified: Advertising/Communications

➤ Recommended Actions:

- The current advertising agency contracts should be reviewed for term expirations. The State's branding and imaging campaign should be focused in markets that attract the overnight visitor, which brings the highest return on investment and traveler expenditures
- The Advertising and Marketing Division should focus on tasks related to OTD and should not be utilized as a resource for other Divisions and other State Agencies.

The Maryland Film Office (MFO)

The mission of the Maryland Film Office is to increase economic development from the attraction of feature film, television and commercial production in the state. The 2006 operating budget for the office is \$850,000, with a staff of six, and one part-time employee based in Los Angeles. The Employer Wage Rebate Grant Program which the MFO manages is currently funded at \$6.75 million.

Problem Identified: Film Incentive Funding

Presently 32 states have incentive programs that offer either rebates or transferable tax credits. Those states and countries with aggressive incentive packages are now reaping the substantial economic benefits of film production, despite the lack of infrastructure to support film production.

- **Recommended Action:** If Maryland is to grow, or simply maintain its film industry, the Employer Wage Rebate Grant Program must be structured and funded to compete with other states and countries that have more aggressive programs. Otherwise, the Administration could face a significant loss of market share and a loss of an experienced crew base in this lucrative industry. DBED has draft legislation for the 2007 session that would remove the per project cap and make other technical changes. The current cap is at \$2 million per project. The elimination of the cap would allow flexibility in attracting larger budget projects. Other state tax incentive programs should be studied if the Wage Rebate Program can not be adequately funded.

Maryland State Arts Council (MSAC)

The Maryland State Arts Council (MSAC) has served as the State's public advocacy and program arm devoted to encouraging and investing in the arts for all Marylanders. With a staff of 13 and a fiscal year 2007 budget of \$15.7 million, MSAC has worked primarily as a granting organization, awarding more than \$13M in direct operating grants to arts organizations, artists, local arts councils and schools.

Problem Identified: New Program Development: Creative Maryland

- **Recommended Actions:**
 - Develop a "Creative Community" action agenda to identify and implement new initiatives designed to further develop Maryland's creative economies.
 - Implement Public Art legislation passed by 2005 General Assembly by appointing Governor's Public Art Commission charged with developing regulations, related guidelines and strategic plan for implementing Maryland's public art program.
 - Evaluate CultureStatMD as statewide mechanism and methodology for statistical reporting. Primarily funded by the Pew Charitable Trust, the Pennsylvania Cultural Data Project has proven to be very successful.

Problem Identified: Communication: Improve and enhance interagency coordination & communication.

➤ **Recommended Actions:**

- Develop an in-house public relations and cooperative marketing campaign to increase promotion of MSAC funded programs.
- Coordinate marketing efforts and resource allocation between arts councils, tourism marketing organizations and heritage area authorities.
- Create a statewide, web accessible database of artists, grants, cultural programs and other creative resources available to local government, educators, and non-profit organizations.

Problem Identified: Funding

➤ **Recommended Action:**

- Continue effort to achieve full funding of 10% of general support for qualified arts organizations. Governor O'Malley has pledged support for this critical goal.

