

MEMORANDUM

April 15, 2015

TO: Planning, Housing and Economic Development Committee
FROM: Jacob Sesker, Senior Legislative Analyst *JS*
SUBJECT: FY16 Operating Budget: Economic Development Fund

Those expected to attend this worksession include:

Sally Sternbach, Acting Director, DED
Peter Bang, Chief Operating Officer, DED
Pofen Salem, OMB

Relevant pages from the FY16 Recommended Budget are attached at © 1-4.

Staff Recommendation: Concur with the CE's recommended FY16 budget for the EDF

Overview

The mission of the Economic Development Fund (EDF) is to assist private employers who are located, or plan to locate or substantially expand operations, in the County. While there are four separate programs that are related to the Economic Development Fund, this year, as in most years, the lion's share of the appropriation request relates to the Economic Development Grant and Loan Program. Each year, the Department of Economic Development compiles a report on the Economic Development Fund—the most recent report was transmitted to the Council in March. *See EDF Annual Report, © 4.*

In FY15, the Council originally approved an operating budget of \$1,850,567. In FY16, the Executive requests \$1,853,591, representing an increase of \$3,024. The increase is attributable to increases in personnel costs for the one position charged to the Economic Development Fund.

| <i>Change</i> | <i>Expenditures</i> | <i>FTEs</i> |
|---|---------------------|-------------|
| FY15 Original Appropriation | \$1,850,567 | 1.00 |
| Increase Cost: FY16 Compensation Adjustment | \$2,733 | 0.00 |
| Increase Cost: Group Insurance Adjustment | \$291 | 0.00 |
| FY16 Recommended | \$1,853,591 | 1.00 |

FY16 Expenditure Issues

FY15 Summary

The FY16 recommended budget of the Economic Development Fund includes the following:

| | |
|--|---------------------------|
| <i>Economic Development Fund Budget</i> | <i>FY16 CE rec</i> |
| Base Budget | \$1,850,567 |
| Adjustments with no service impacts | \$3,024 |
| Total FY16 | \$1,853,591 |
| Non-Program Specific Costs | |
| Personnel | \$129,751 |
| Capital outlay | \$0 |
| Administrative Costs/OE | \$0 |
| Budget available for Programs | \$1,723,840 |
| Small Business Revolving Loan Program | \$0 |
| Technology Growth Program | \$0 |
| Small Business Assistance Program | \$0 |
| EDFGLP | \$1,723,840 |
| Total EDFGLP | \$1,723,840 |
| Meso Scale Diagnostics | \$167,000 |
| Choice Hotels | \$150,000 |
| Cybersecurity tax credit | \$0 |
| Biotech tax credit | \$500,000 |
| MOVE Program | \$0 |
| Other | \$0 |
| <i>Undesignated</i> | <i>\$777,088</i> |

Awards to Meso Scale Diagnostics (\$167,000) and Choice Hotels (\$150,000) are pursuant to Economic Development Fund Agreements (EDFAs) executed in prior years. The Executive recommended funding the biotech tax credit at \$500,000 in FY16. The balance of the appropriation (\$777,088) is undesignated. The undesignated balance in the EDF could be used to fund administrative

expenses, consultant studies, small grants or loans (e.g., under \$100,000), or equity investments. Each program is addressed separately below.

Economic Development Grant and Loan Program

About 80% of the total assistance provided through the EDF has been provided through the grant and loan program. Over time, the program has benefitted a wide range of companies from all across the County. *See EDF Report, © 13.*

- Roughly half of program expenditures are for attraction projects, and roughly half are for retention/expansion projects.
- Roughly two-thirds of the awards are \$100,000 or less.
- More recipients are in the biotechnology industry than any other industry.
- While Rockville and Bethesda are the most common locations for incentive recipients, Wheaton and Rockville recipients have received almost 70% of the program's funding.

State leverage is frequently involved in these transactions—total State incentive dollars leveraged is in excess of \$21 million, with an additional \$1.7 million in support from municipalities.

In 2015, DED made several small awards, totaling \$365,000. In 2016, likely EDF obligations—in addition to the Meso Scale Diagnostics and Choice Hotels—include the first payment to Bytegrid (via supplemental appropriation). It is unlikely that either the Fishers Lane/HHS project or the Foulger Pratt/NOAA project will require funding until FY17. *See EDF Report, © 12.*

Small Business Revolving Loan Fund

The small business revolving loan fund was created in 2000 to assist small businesses that lack access to traditional private and public funding. Over its history, the program has loaned \$1.9 million to 36 recipients.

The current balance available for SBRLF is approximately \$950,000. In FY15, the SBRLF made loans of \$223,400 to 5 companies. *See EDF Report, © 14-15.*

Biotechnology Investor Incentive Program

The Biotechnology Investor Incentive Program was approved by the County Council in FY11 and supplements a parallel state program. Qualified investors who receive the tax credit from the State for investment in companies located in Montgomery County are eligible to receive the County's incentive supplement. Since FY11, all funds appropriated (\$500,000 per year) have been spent. In FY14, there were 59 State qualified investments, with total investments of \$7,002,711. *See EDF Annual Report, © 16.*

Cybersecurity Investment Tax Credit

This program was created in FY14 with passage of Bill 25-13. The program was not funded in the FY14 operating budget and was not funded by supplemental appropriation during the first three quarters of FY15. DED will begin marketing the program, in conjunction with the State of Maryland, once funding is approved.

This program is similar to the Biotech Investor Incentive Program insofar as it is a supplement to a State tax credit program. It is different from the Biotech Investor Incentive Program insofar as the County supplement will be given to the cybersecurity company rather than to its qualified investors.

No County cybersecurity companies received (or even applied for) tax credits from the State under its program for calendar year 2014. Since the EDF is a continuous and non-lapsing fund, the \$500,000 appropriated but not spent in FY15 will remain available until expended.

Green Investor Incentive Program

In FY14, the EDF budget included \$500,000 for the Green Investor Incentive Program. The Green Investor Incentive Program (Bill 40-12) was introduced in December of 2012 and enacted on April 16, 2013. Unlike the Biotech Investor Incentive Program and the Cybersecurity Investment Tax Credit, the Green Investor Incentive Program is not a supplement to a Maryland tax credit.

To date, no companies qualified for and received funding from the EDF through the Green Investor Incentive Program. Over the course of this past year, the \$500,000 appropriated for this program in FY14 was re-purposed to fund other EDF incentives. DED continues to market the program.

Small Business Assistance Program

This program was created to provide assistance to small businesses located in an enterprise zone or an urban renewal area that are adversely impacted by redevelopment projects located on County property or financed in whole or in part by the County. The program parameters have not yet been finalized. A study is underway and will be completed in May of 2015. It is expected that the program design will be completed this summer. Implementation of the program is likely to be complex and labor intensive. See *DED Response – Small Business Assistance*, © 28.

In DED's response, the department states that "once funding requirements are determined, we anticipate requesting a supplemental appropriation if it is necessary." Council Staff also notes that the summer 2016 expiration of the Wheaton incubator lease (\$329,000) potentially provides some budget flexibility to fund personnel/contractor costs in FY17. The undesignated balance in the EDF (discussed below) may provide some additional flexibility to fund the program.

Equity Investment Program

This program was created after the Council approved Bill 3-13. Since the inception of the program, the County has invested \$250,000 in three companies.

Make Office Vacancies Extinct (MOVE) Program

In 2014, DED announced a new program intended to reduce office vacancies. In January of this year, the PHED committee discussed—and ultimately supported—some changes to the program that should result in more companies being eligible, and increasing the maximum award from \$40,000 to \$80,000 (\$8 per square foot for up to 10,000 square feet).

The following description was provided in the County Executive's Six Point Economic Plan: "One component of the Six Point Economic Plan is to expand the existing MOVE Program to reduce vacant Class A and B office space in the County. Through the MOVE program, businesses new to the

County or businesses creating their first shared office space in the County receive a one-time grant for relocation or build out assistance. The MOVE Program was expanded in February 2015 to increase financial assistance from \$4 to \$8 per square foot, up to a maximum of 10,000 square feet, for any industry sector except retail and restaurant.”

The Executive did not recommend additional appropriations for this program because sufficient existing appropriations exist to fund eligible recipients for FY16. Obviously, if the County’s economy heats up and all available appropriations are exhausted, then a re-evaluation of the program would be warranted.

See EDF Report for program results through January 2015 at ©19

Undesignated Balance

The CE’s recommended budget includes \$777,088 for undesignated balance. This is up from \$330,000 appropriated for undesignated balance in FY15. In FY14, DED was able to offer assistance totaling \$725,000 to nine employers in amounts of \$100,000 or less (the undesignated balance in the EDF also covered costs such as consultant studies for due diligence). In FY15, DED was able to offer assistance totaling \$585,000 to eight employers in amounts of \$100,000 or less using the undesignated balance in the EDF. This undesignated balance is important for the EDF to function effectively as a tool to attract and retain private employers.

Attachments: © 1 Recommended FY14 Operating Budget: EDF
© 4 EDF Annual Report
© 28 DED Response – Small Business Assistance

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Economic Development Fund

MISSION STATEMENT

The mission of the Economic Development Fund (EDF) is to assist private employers who are located, plan to locate, or substantially expand operations in the County. Each program under the EDF is administered by the Department of Finance and by the respective departments as noted below.

BUDGET OVERVIEW

The total recommended FY16 Operating Budget for the Economic Development Fund is \$1,853,591, an increase of \$3,024 or 0.2 percent from the FY15 Approved Budget of \$1,850,567. Personnel Costs comprise 7.0 percent of the budget for no full-time positions, and a total of one FTE. Total FTEs may include seasonal or temporary positions and may also reflect workforce charged to or from other departments or funds. Operating Expenses account for the remaining 93.0 percent of the FY16 budget.

LINKAGE TO COUNTY RESULT AREAS

While this program area supports all eight of the County Result Areas, the following are emphasized:

- ❖ *Healthy and Sustainable Neighborhoods*
- ❖ *Strong and Vibrant Economy*

ACCOMPLISHMENTS AND INITIATIVES

- ❖ *The County Executive introduced the MOVE Program in FY14 to reduce the amount of Class A and B office space by offering a one-time grant for new companies signing their first lease in the County. The pilot-version of the MOVE program attracted 9 companies and responded to more than 50 inquiries in eight months. In February 2015, The MOVE program was expanded to increase financial assistance from \$4 to \$8 per square foot, up to a maximum of 10,000 square feet, for any industry sector except retail and restaurant.*
- ❖ *The Biotech Tax Credit Supplement Program awarded credits for 59 investments, totaling more than \$7 million in 14 Montgomery County biotech companies in 2014.*
- ❖ *Facilitated the retention and expansion of ByteGrid in Silver Spring, which is estimated to create 80 jobs and generate \$34 million in personal property and energy tax revenue over the next twelve years.*
- ❖ *Facilitated the attraction of Mobile System 7 to generate eight additional jobs through DED's Equity Investment Program.*
- ❖ *Facilitated the retention and expansion of the Brainscope Company to generate 70 additional jobs to their current job base of 14.*
- ❖ *The Department of Economic Development works continually with the business community to identify opportunities for business attraction and retention. As economic development opportunities arise, the Executive submits a supplemental appropriation to the County Council for approval.*

PROGRAM CONTACTS

Contact Peter Bang of the Economic Development Fund at 240.777.2008 or Pofen Salem of the Office of Management and Budget at 240.777.2773 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Economic Development Grant and Loan Program

The Economic Development Grant and Loan Program was established in FY96 to assist private employers who will either retain jobs already in the County or create additional jobs in the County through the expansion of current operations or relocation of new operations in the County. This program is administered by the Department of Economic Development (DED) through its Finance and Administration Division. DED identifies and develops prospects that meet the criteria for a grant or loan from the EDF and then

develops an assistance package. Frequently, DED works in close cooperation and coordination with the State of Maryland. The County Executive submits an annual report by March 15 on the status and use of the EDF as required by Chapter 20-76 (b) of the Montgomery County Code.

| <i>FY16 Recommended Changes</i> | <i>Expenditures</i> | <i>FTEs</i> |
|---|---------------------|-------------|
| FY15 Approved | 1,772,976 | 1.00 |
| Increase Cost: FY16 Compensation Adjustment | 2,733 | 0.00 |
| Increase Cost: Group Insurance Adjustment | 291 | 0.00 |
| Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. | 77,591 | 0.00 |
| FY16 CE Recommended | 1,853,591 | 1.00 |

Technology Growth Program

The Technology Growth Program was created in FY99 to facilitate the growth of technology-based companies located or desiring to relocate in the County. Financial assistance is based on the evaluation of the technology and the innovation proposed, along with potential impact for the County. The program is aimed at leveraging private-sector financing and State Challenge and Equity Investment funds. The program is administered by the Department of Economic Development. The Biotech Tax Credit Supplement Program, established in FY10, provides additional incentive for investors who invest in Montgomery County biotech companies and works in conjunction with the State of Maryland Biotechnology Investment Tax Credit Program. Investors who qualify under the State’s Program receive an additional supplement for their investment in a Montgomery County biotech company. The Green Investor Incentive Program, established in FY14, provides financial incentives to investors of qualified green companies in Montgomery County, encouraging the development of innovative green technologies.

| <i>FY16 Recommended Changes</i> | <i>Expenditures</i> | <i>FTEs</i> |
|---------------------------------|---------------------|-------------|
| FY15 Approved | 0 | 0.00 |
| FY16 CE Recommended | 0 | 0.00 |

Small Business Revolving Loan Program

The Small Business Revolving Loan Program was established in FY00 and is administered by the Department of Economic Development. The program augments a grant from the Maryland Economic Development Assistance Authority and Fund Act under Senate Bill 446 to finance economic development projects that do not receive priority consideration from institutional lenders or other public sources because they are in a non-priority industry sector, a non-priority transaction site, and/or cannot fully satisfy the credit requirements of a conventional loan. The program offers secured loans typically in the range of \$25,000 to \$100,000.

| <i>FY16 Recommended Changes</i> | <i>Expenditures</i> | <i>FTEs</i> |
|---|---------------------|-------------|
| FY15 Approved | 77,591 | 0.00 |
| Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. | -77,591 | 0.00 |
| FY16 CE Recommended | 0 | 0.00 |

BUDGET SUMMARY

| | Actual FY14 | Budget FY15 | Estimated FY15 | Recommended FY16 | % Chg Bud/Rec |
|--|------------------|------------------|-------------------|---------------------|------------------|
| ECONOMIC DEVELOPMENT FUND | | | | | |
| EXPENDITURES | | | | | |
| Salaries and Wages | 97,156 | 99,660 | 100,602 | 101,987 | 2.3% |
| Employee Benefits | 25,198 | 26,316 | 26,027 | 27,013 | 2.6% |
| Economic Development Fund Personnel Costs | 122,354 | 125,976 | 126,629 | 129,000 | 2.4% |
| Operating Expenses | 7,114,189 | 1,724,591 | 4,138,075 | 1,724,591 | --- |
| Capital Outlay | 0 | 0 | 0 | 0 | --- |
| Economic Development Fund Expenditures | 7,236,543 | 1,850,567 | 4,264,704 | 1,853,591 | 0.2% |
| PERSONNEL | | | | | |
| Full-Time | 0 | 0 | 0 | 0 | --- |
| Part-Time | 0 | 0 | 0 | 0 | --- |
| FTEs | 1.00 | 1.00 | 1.00 | 1.00 | --- |
| REVENUES | | | | | |
| Investment Income | 30,439 | 68,980 | 55,970 | 55,970 | -18.9% |
| Loan Payments | 55,858 | 94,970 | 94,970 | 94,970 | --- |
| Miscellaneous Revenues | 161,107 | 0 | 0 | 0 | --- |
| Economic Development Fund Revenues | 247,404 | 163,950 | 150,940 | 150,940 | -7.9% |

FY16 RECOMMENDED CHANGES

| | Expenditures | FTEs |
|---|------------------|-------------|
| ECONOMIC DEVELOPMENT FUND | | |
| FY15 ORIGINAL APPROPRIATION | 1,850,567 | 1.00 |
| Other Adjustments (with no service impacts) | | |
| Increase Cost: FY16 Compensation Adjustment [Economic Development Grant and Loan Program] | 2,733 | 0.00 |
| Increase Cost: Group Insurance Adjustment [Economic Development Grant and Loan Program] | 291 | 0.00 |
| FY16 RECOMMENDED: | 1,853,591 | 1.00 |

PROGRAM SUMMARY

| Program Name | FY15 Approved | | FY16 Recommended | |
|---|------------------|-------------|------------------|-------------|
| | Expenditures | FTEs | Expenditures | FTEs |
| Economic Development Grant and Loan Program | 1,772,976 | 1.00 | 1,853,591 | 1.00 |
| Technology Growth Program | 0 | 0.00 | 0 | 0.00 |
| Small Business Revolving Loan Program | 77,591 | 0.00 | 0 | 0.00 |
| Total | 1,850,567 | 1.00 | 1,853,591 | 1.00 |

FUTURE FISCAL IMPACTS

| Title | CE REC. | FY17 | FY18 | (5000's) | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| | FY16 | | | FY19 | FY20 | FY21 |
| This table is intended to present significant future fiscal impacts of the department's programs. | | | | | | |
| ECONOMIC DEVELOPMENT FUND | | | | | | |
| Expenditures | | | | | | |
| FY16 Recommended | 1,854 | 1,854 | 1,854 | 1,854 | 1,854 | 1,854 |
| No inflation or compensation change is included in outyear projections. | | | | | | |
| Subtotal Expenditures | 1,854 | 1,854 | 1,854 | 1,854 | 1,854 | 1,854 |

Montgomery County Economic Development Fund Annual Report

For the Year Ended February 28, 2015



**Prepared by
Department of Economic Development**

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I. Introduction

The purpose of this report is to summarize and analyze the activities for all of the programs under the Montgomery County Economic Development Fund (“EDF” or the “Fund”). The Fund was created in 1995 by the Montgomery County Council (the “Council”) to provide financial assistance to private employers who create or retain jobs and/or maximize the spin-off effects of the public investment. The Fund’s Executive Regulations gives priority to businesses in targeted industries identified by the Economic Development Strategic Plan. The Fund is managed by the Montgomery County Department of Economic Development (“DED”) in conjunction with Montgomery County Department of Finance (“DOF”). Included with this report, but not a part of the EDF, is a summary about Montgomery County’s Tax Credit Programs.

The Council and Executive have expanded the use of the Fund over the years by establishing sub-programs within the Fund. Currently, there are eight active sub-programs. The following is a list of all the sub-programs, including the fiscal year (July 1st to June 30th of the following year) the sub-program was created.

Table 1: Summary EDF Sub-programs

| Active Programs | Year Established | Cumulative Assistance Provided |
|--|------------------|--------------------------------|
| Economic Development Fund Grant and Loan Program | FY 1996 | \$39,519,150 |
| Small Business Revolving Loan Program | FY 2000 | \$2,340,959 |
| Biotechnology Investor Incentive Program* | FY 2012 | \$1,500,000 |
| Equity Investment Program | FY 2013 | \$255,000 |
| Green Investor Incentive Program | FY 2013 | \$0 |
| Small Business Assistance Program | FY 2013 | \$0 |
| Cybersecurity Supplement Program* | FY 2014 | \$0 |
| MOVE Program | FY 2014 | \$94,328 |
| Inactive or Discontinued Programs | Year Established | Cumulative Assistance Provided |
| Emergency Agricultural | FY 1998 | \$1,500,000 |
| Demolition Loan | FY 2000 | \$100,000 |
| Export Montgomery | FY 2001 | \$12,000 |
| Micro-Enterprise | FY 2008 | Merged into SBRLP |
| Technology Growth Program | FY 1999 | \$4,055,000 |

*Legislative name is Biotechnology Tax Credit Supplement Program and Cybersecurity Investment Incentive Tax Credit Supplement respectively

II. Highlights of Recent EDF Activities

The EDF program plays a vital role in economic development in the county each year. The program is versatile and allows the county to respond to various business needs across different industry sectors. Last year, DED worked with 35 companies, providing \$1 million in assistance to attract and retain more than 1,000 jobs.

Notable Company Transactions

- **ByteGrid** – The largest transaction this past year was with ByteGrid, a provider of multi-tenant wholesale data centers. The County expects this transaction to create at least 82 jobs and generate approximately \$33.8 million in new personal property taxes and energy taxes over the twelve-year term.
- **Rapid Financial Services** – Retained this fast growing company in the county, including 87 jobs. The company expects to add another 124 jobs in the next few years.
- **Mobile Systems 7** – One of the first recipients of equity investments from the County. The company is in the cybersecurity industry and relocated from Virginia to Maryland in 2014, bringing 8 jobs and expecting to double to 16 by the end of 2015.
- **Denizens Brewing Company** – Loan enabled the opening of a new brewery and hiring of 40 staff in downtown Silver Spring.

New in 2014

MOVE Program

The County Executive introduced the MOVE Program in March of 2014 to reduce the amount of Class A and B office space in the County. This program focuses entirely on attracting companies and provides assistance based on the applicant's leased square footage, up to 10,000 square feet.

Enterprise Zones and Arts & Entertainment Districts

In addition to the EDF programs, the administration of the Enterprise Zone Tax Credit Program and Arts & Entertainment District Tax Credit Program were transferred from Department of General Services to DED in FY 2015.

III. Overview of EDF Program

A. EDF Program Objectives

The EDF program is one of Montgomery County's (the "County") programs that incentivize businesses to relocate or remain in the County. The Fund is flexible enough to meet a variety of business and industry needs through its different sub-programs. This flexibility has allowed the County to attract and retain strategic businesses of all sizes over the years.

Bill 14-12 requires that the objectives of the EDF program align with the economic development strategic plan. The 2014 Strategic Plan has six areas of focus.

- 1) A Bird in the Hand – Company retention
- 2) Bigger is Better – Company growth
- 3) Smart Growth = Strategic Growth – Focused development
- 4) Increasing the Size of the Table – Focused effort with minority- or women-owned businesses
- 5) Building for Our Future – Focused effort with entrepreneurs
- 6) Telling the MoCo Story – Focused marketing

In addition to the Strategic Plan, the County Executive introduced his Six-Point Economic Plan during his inauguration in December 2014. This plan enhances the current Strategic Plan by focusing the County's economic development efforts in six key areas. The EDF is directly impacted through the administration of the MOVE and BUILD Program and may be indirectly impacted through the implementation of other points in the Six-Point Plan.

The EDF program advances the County's economic goals under the strategic plan by positioning the County to more easily retain and grow businesses. The objective to attract and retain businesses accounts for a majority of the recipients and funding under the EDF; however, the following additional objectives of the program are also achieved:

- **Generating Economic Impact** – By incentivizing businesses to relocate or remain in the County, the County directly benefits through the revenue generated by the jobs and property taxes. In addition, this direct impact spurs further economic impact through the creation of secondary jobs, services, and investments.
- **Providing Financial Assistance to Businesses** – The cost of doing business in the County continues to grow. Through the various EDF sub-programs, the County can meet current and future business needs across a variety of industries.
- **Leveraging State Funding** – The EDF program allows businesses in the County to access similar programs at the state-level. The combined funds between the County and state can leverage greater economic impact than if the County was responsible for funding projects alone.

- **Serving as an Economic Development Barometer** – Through the analyses and processes required by the Fund, DED is able to learn and assess current business practices and market trends that would be otherwise difficult to obtain. These analyses allow the County to better guide its economic development policies.
- **Cultivating Long-Term Relationship with Resident Businesses** – Through annual performance monitoring, DED is able to maintain active, productive relationships with many of the key employers in the County.
- **Providing Access to Capital for Small Businesses** – The Small Business Revolving Loan Program provides much needed capital to local, small businesses that are unable to secure traditional loans.
- **Provide Incentives to Investors in Strategic Industries** – The Biotechnology Investor Incentive Program, Cybersecurity Supplement Program, and Green Investor Incentive Program allow the County to spur investment into the County’s strategic industries.

B. EDF Program Operations

Each program under the EDF requires DED to screen and evaluate each candidate prior to funding. Some of the typical analyses performed are:

- A fiscal impact analysis developed by DOF
- A technology and commercialization feasibility analysis
- A credit worthiness and debt repayment capacity analysis
- A secondary and tertiary economic impact analysis
- An analysis of the strategic significance of the project
- Other important facts as seen relevant by DED and DOF

DED in cooperation with DOF uses these analyses and procedures to ensure that the funds disbursed will have a positive fiscal impact to the County and/or that the County’s strategic objectives are met. All offers of financial assistance are contingent upon the availability of the funds, disbursement criteria, and post-funding performance requirements.

C. EDF Program Budget

The EDF is continuing and non-lapsing by law. This means that the any unspent funds are available for use in the next fiscal year. The EDF funds consists of dollars appropriated by the Council, loan repayments, interest earned on the fund, and funds received from any other public or private entity, such as the State of Maryland (the “State”). The appropriation approved for FY 2015 for the EDFGLP is for regular transactions that are less than \$500,000. Based on Bill 14-12, any offer of assistance with a total amount more than \$500,000 must be approved by the Council through a supplemental appropriation.

Table 2: Summary of Appropriation and Budget for EDF Program for Fiscal Year 2015(as of 2/28/2015)

| | | |
|--|-----------|------------------|
| FY15 Appropriation (including supplemental) for All Programs* | \$ | 1,850,567 |
| FY14 Year End Cash Balance carried over (based on CAFR report) | \$ | 2,914,137 |
| Total Appropriation for All Programs for FY15 | \$ | 4,764,704 |
| FY 15 Year-to-Date Disbursement for All Programs: | | |
| EDFGLP | \$ | 317,000 |
| MOVE Program | \$ | 94,328 |
| SBRLP | \$ | 98,459 |
| Equity Investment Program | \$ | - |
| Biotech Investor Incentive Program | \$ | - |
| Green Investor Incentive Program | \$ | - |
| Cybersecurity Supplement Program | \$ | - |
| Small Business Assistance Program | \$ | - |
| Adm. Cost for FY15 | \$ | 36,865 |
| Personnel Cost for FY15 (Full Year Reserve) | \$ | 125,976 |
| Total | \$ | 672,628 |
| Available Fund Balance for All Programs for Remaining FY15 | | |
| | \$ | 4,092,076 |
| Reserved for SBRLP (estimated) | \$ | 1,144,424 |
| Reserved for Cybersecurity Tax Credit Supplement Program | \$ | 500,000 |
| Reserved for Green Investor Incentive Program | \$ | 500,000 |
| Reserved for Biotech Tax Credit Supplement Program for FY15 | \$ | 500,000 |
| Total | \$ | 2,644,424 |
| Available Fund Balance for EDFGLP | \$ | 1,447,652 |
| Reserved for Committed Transactions Pending Disbursement | | |
| Rapid Financial Services | \$ | 100,000 |
| innoScience | \$ | 80,000 |
| TSC Advantage | \$ | 70,000 |
| Salsa Lab | \$ | 95,000 |
| Total | \$ | 345,000 |
| Remaining Balance for FY15 for regular EDFGLP transactions and MOVE Program | \$ | 1,102,652 |
| Remaining Committed Transactions Pending Disbursements | | |
| *subject to appropriation or supplemental appropriation | | |
| Meso Scale* | \$ | 1,336,000 |
| Choice Hotel | \$ | 600,000 |
| HHS Retention Project* | \$ | 19,500,000 |
| NOAA Retention Project* | \$ | 12,000,000 |
| ByteGrid Holdings Project* | \$ | 12,000,000 |

*Note: The financial offers for Meso Scale Retention Project, HHS Retention Project and NOAA Retention Project are based on certain percentage of incremental value of real property taxes over 10-15 years after the property is revitalized and reassessed; ByteGrid Project is based on personal property taxes or energy tax each year.

IV. Summary of EDF Sub-Programs

There are eight active EDF sub-programs that DED currently administers. Each sub-program allows the County to concentrate its assistance efforts toward specific goals. The following sections summarize the last ten years for each sub-program. This was done to provide a summary that best matched the current economic climate and allows for better analysis of recently closed cases.

A. EDF Grant and Loan Program

The Economic Development Fund Grant and Loan Program (“EDFGLP”) was the original program created in 1995. It accounts for a majority of the activity and of the assistance provided compared to all other sub-programs.

The EDFGLP is intended to incentivize job growth and capital investment within the County by providing financial assistance to businesses that plan to relocate or remain and expand in the County. The typical structure of an EDFGLP transaction is a conditional grant to the business. The conditional grant will become a permanent grant so long as a business meets specific goals throughout the term of the conditional grant. For more details about the goals, refer to the Performance and Outcome EDFGLP section of this report.

Each year DED, through business attraction and retention effort, identifies applicants. The number of new cases varies year-to-year based on the EDF funding level and the evaluation of applicants. The following table lists the recipients that received assistance from the EDFGLP for Report Year 2015 (“RY 2015”, March 1st, 2014 to February 28th, 2015).

Table 3: EDFGLP Recipients for Report Year 2015

| Recipient Name | Value | Purpose | Industry | Location |
|-----------------------------|-----------|---------------------------------|---------------|--------------|
| Choice Hotels International | \$150,000 | *remaining annual disbursements | | |
| Meso Scale Diagnostics | \$167,000 | *remaining annual disbursements | | |
| Scheer Partners | \$50,000 | Retain & Expand | Biotechnology | Rockville |
| MAWI DNA Technologies | \$50,000 | Retain & Expand | Biotechnology | Gaithersburg |

- The County provided \$443,000 in assistance to four recipients for RY 2015.
- All but one of the recipients was for retention and expansion purposes.

DED has several cases that are approved for funding but have not yet been disbursed. The following is a list of the current approved cases:

Table 4: Ongoing and Future Transactions

| Recipient Name | Funding Amount | Estimated FY of Funding | Purpose | Industry | Location |
|-------------------------------|----------------------------------|-------------------------|-----------------|-------------------------|---------------|
| Choice Hotels International | \$150,000 for 4 Years | FY 2016 - 2019 | Retain & Expand | Hospitality and Retail | Rockville |
| Fishers Lane (HHS Project)* | Up to \$1,300,000 for 15 Years | FY 2017 - 2032 | Retain & Expand | Revitalization | Rockville |
| Foulger Pratt (NOAA Project)* | Up to \$800,000 for 15 Years | FY 2017 - 2032 | Retain & Expand | Revitalization | Silver Spring |
| Meso Scale Diagnostics* | Up to \$167,000 for 8 Years | FY 2016 - 2023 | Retain & Expand | Biotechnology | Rockville |
| ByteGrid Holdings* | Up to \$12,000,000 over 12 years | FY 2016 - 2025 | Retain & Expand | Technology & Info. Tech | Silver Spring |
| Rapid Financial Services | \$100,000 | FY 2015 | Retain & Expand | Financial Services | Bethesda |
| Salsa Labs | \$95,000 | FY 2015 | Attract | Technology & Info. Tech | Bethesda |
| TSC Advantage | \$70,000 | FY 2015 | Attract | Technology & Info. Tech | Silver Spring |
| innoScience | \$50,000 | FY 2015 | Attract | Technology & Info. Tech | Gaithersburg |

* The disbursement amount for these projects will be calculated based on the actual incremental value in real property taxes after the properties are revitalized and reassessed or based on the actual personal property or energy taxes each year in the case of ByteGrid.

- Four projects, ByteGrid, HHS, Meso Scale Diagnostics, and NOAA account for majority of the projected fund use - \$45.8 million over the next 8 to 15 years.
- Most of the future recipients are for the purpose of retention and expansion, including the largest projects described above.

Since the number of recipients and the funding amount can vary from year-to-year for the EDFGLP, it is beneficial to summarize the activity for the last ten years. The following tables include all funded EDFGLP cases, whether still open or closed, from FY 2005 – FY 2015.

Table 5: Ten-Year Summary for EDFGLP

| | |
|------------------------------------|-------------------------|
| Assistance Provided | \$26.2 million |
| Recipients | 61 |
| Range of Conditional Grants | \$15,000 to \$6 million |

- The median value of an EDFGLP conditional grant was \$80,000 over the last ten years.
- Seven recipients accounted for \$19.6 million in assistance provided, about 75% of the total amount

The following table provides additional details about the EDFGLP for the past ten years based on select categories.

Table 6: Ten-Year Summary for EDFGLP by Select Category

| | Recipients | | Funding Amount | |
|-------------------------------------|------------|------------|----------------|------------|
| | Number | % of Total | Value | % of Total |
| Purpose of Conditional Grant | | | | |
| Attract | 28 | 46% | \$18,215,000 | 70% |
| Retain | 2 | 3% | \$400,000 | 2% |
| Retain and Expand | 31 | 51% | \$7,559,150 | 28% |
| Range of Conditional Grant | | | | |
| \$0 - \$50,000 | 23 | 38% | \$915,000 | 3% |
| \$50,001 - \$100,000 | 17 | 28% | \$1,455,000 | 6% |
| \$100,001 - \$500,000 | 13 | 21% | \$3,429,000 | 13% |
| More than \$500,000 | 8 | 13% | \$20,375,150 | 78% |
| Industry | | | | |
| Association and Non-Profit | 1 | 2% | \$1,875,000 | 7% |
| Biotechnology | 23 | 38% | \$3,669,000 | 14% |
| Business Services | 6 | 10% | \$570,000 | 2% |
| Education and Healthcare | 1 | 2% | \$150,000 | 1% |
| Hospitality and Retail | 6 | 10% | \$4,420,150 | 17% |
| Other | 5 | 8% | \$475,000 | 2% |
| Revitalization | 3 | 5% | \$13,180,000 | 50% |
| Technology and Info. Tech | 16 | 25% | \$1,835,000 | 7% |
| Location | | | | |
| Bethesda | 16 | 26% | \$2,920,000 | 11% |
| Clarksburg | 2 | 3% | \$375,000 | 1% |
| Gaithersburg | 9 | 15% | \$1,790,000 | 7% |
| Germantown | 5 | 8% | \$720,000 | 3% |
| Potomac | 1 | 2% | \$550,000 | 2% |
| Rockville | 17 | 28% | \$8,257,150 | 32% |
| Silver Spring | 8 | 13% | \$1,275,000 | 5% |
| Wheaton | 3 | 5% | \$10,040,000 | 37% |

- The number of EDFGLP recipients for the purposes of business attraction or business retention and expansion were equivalent; however, business attraction received 70% of the funding dollar over the past ten years.
- 64% of the recipients were either in the Biotechnology or Technology and Info. Tech industries.

The County can partner with the State to leverage additional dollars to attract or retain larger businesses. Typically, the State provides more than twice the amount compared to the County. The following table summarizes the State investment compared to the County investment over the past ten years.

Table 7: County Dollars Leveraged by State Dollars

| | |
|---|--------------|
| Projects Complemented by State Funding | 25 |
| Total Amount of County Funding | \$10,509,150 |
| Total Amount of State Funding | \$21,630,000 |
| State Leverage per County Dollar | \$2.06 |

- Out of the 61 cases that received County support during the past ten years, 41% of the county projects were supported by the State.
- 3 projects, Emergent BioSolutions, Duball Rockville, and Sodexo, received an additional \$1.7 million in support from the City of Gaithersburg or the City of Rockville.

B. Technology Growth Program

The Technology Growth Program (“TGP”) was established in FY 1999 to provide assistance to early-stage technology companies located in or planning to locate in the County. The typical structure of a TGP transaction is a conditional grant to the business that would become a loan after the company achieved specific equity or revenue goals. The program is inactive due to funding and limited growth capital within the market, but there are still open cases from the previous years of funding. The following summary is for cases that were funded between FY 2004 – FY 2014.

Table 8: Ten-Year Summary for TGP

| | |
|------------------------------------|-------------------|
| Assistance Provided | \$3,065,000 |
| Recipients | 57 |
| Range of Conditional Grants | \$5,000-\$100,000 |

C. Small Business Revolving Loan Program

The Small Business Revolving Loan Program (“SBRLP”) was created in FY 2000 to assist small businesses that lacked access to traditional private and public funding sources. SBRLP continues to provide financial assistance to small businesses in Montgomery County and facilitates business development through direct loans and augmenting loans made by other financial institutions.

The SBRLP was seed-funded through a combination of \$1,100,000 from the County and \$1,000,000 from the State of Maryland. From this pool, the County provides low-interest loans to qualified small businesses in the County. The SBRLP balance is replenished when these businesses pay-off loans with interest. Due to the recent economic recession and financial condition of the businesses that received assistance through the SBRLP, the original base amount of \$2,100,000 has been reduced over the years from writing-off some principal repayments.

The following tables detail the cash balance, recent SBRLP activity, and a summary of the SBLRP over the last ten years.

Table 9: FY 2015 Year-to-Date Fund Balance

| Current SBRLP Fund Balance | |
|---|---------------------|
| FY15 Fund Balance (carry over from FY14) | \$ 1,144,424 |
| Total Fund Balance for FY15 | \$ 1,144,424 |
| FY15 Year-to-Date Disbursement | \$ 98,459 |
| plus Loan Commitments pending disbursement | \$ 95,000 |
| Available Balance for Remaining FY15 | \$ 950,965 |

Table 10: Loans made in RY 2015

| Recipient Name | Value | Industry | Location |
|---|----------|------------------------------|---------------|
| Hilag International | \$25,000 | Technology and Info. Tech | Germantown |
| All African Food Stores | \$25,000 | Hospitality and Retail | Clarksburg |
| Citizens Brewing | \$75,000 | Hospitality and Retail | Silver Spring |
| Woodshop Supplies | \$73,400 | Hospitality and Retail | Bethesda |
| Sunflower Health and Wellness Consultants | \$25,000 | Business Services | Gaithersburg |

Table 11: Ten-Year Summary of SBRLP

| | |
|----------------------------|---------------------|
| Assistance Provided | \$1.9 million |
| Number of Loans | 36 |
| Range of Loans | \$9,500 - \$100,000 |

Table 12: Ten-Year Summary of SBRLP by Category

| | Recipients | | Funding Amount | |
|---------------------------|------------|------------|----------------|------------|
| | Number | % of Total | Value | % of Total |
| Industry | | | | |
| Biotechnology | 2 | 6% | \$105,000 | 6% |
| Business Services | 4 | 11% | \$70,000 | 4% |
| Hospitality and Retail | 19 | 52% | \$1,071,400 | 56% |
| Other | 1 | 3% | \$60,000 | 3% |
| Technology and Info. Tech | 10 | 28% | \$594,500 | 31% |
| Location | | | | |
| Bethesda | 1 | 3% | \$73,400 | 4% |
| Clarksburg | 1 | 3% | \$25,000 | 1% |
| Damascus | 1 | 3% | \$15,000 | 1% |
| Gaithersburg | 4 | 11% | \$268,000 | 14% |
| Germantown | 1 | 3% | \$25,000 | 1% |
| Olney | 1 | 3% | \$15,000 | 1% |
| Rockville | 14 | 38% | \$805,000 | 42% |
| Silver Spring | 9 | 25% | \$479,500 | 25% |
| Wheaton | 4 | 11% | \$195,000 | 11% |

- More than 50% of the recipients and loan amount disbursed were provided to businesses in the Hospitality and Retail industry.
- Rockville and Silver Spring had the most recipients and loan amount disbursed.

D. Biotechnology Investor Incentive Program

The Biotechnology Investor Incentive Program (“BIIP”) was approved by the Council in Fiscal Year 2011 to provide additional incentive to investors of biotechnology companies located in the County. The BIIP runs in conjunction with the State of Maryland’s Biotechnology Investor Incentive Tax Credit Program. Qualified investors who receive the tax credit from the State for companies in Montgomery County are automatically eligible to receive the County’s incentive. The amount of incentive is based on the appropriations made for each fiscal year; the annual appropriation has been \$500,000 for FY 2011 – FY 2014.

Table 13: BIIP Recipients and Private Investment FY 2012 through 2014

| | FY 2012 | FY 2013 | FY 2014 |
|--------------------------|-------------|-------------|-------------|
| Incentive Provided | \$500,000 | \$500,000 | \$500,000 |
| Number of Investments | 61 | 51 | 59 |
| Total Private Investment | \$6,253,987 | \$7,053,700 | \$7,002,711 |

Note: The number of investments is the total number of State qualified investments made in Montgomery County biotechnology companies that year, not the number of unique investors.

E. Green Investor Incentive Program

The Green Investor Incentive Program (“GIIP”) was approved by the Council in Fiscal Year 2013. The GIIP provides incentive to any investors who made an investment in a Montgomery County green business during the previous calendar year. To be considered a green business, the business must develop an innovative, green technology and operate under sustainable business practices.

No investors took advantage of the GIIP during the calendar year 2014. DED continues to market the program.

F. Cybersecurity Supplement Program

The Cybersecurity Supplement Program (“CSP”) was approved by the Council in Fiscal Year 2014. The program is similar to the Biotechnology Investor Incentive Program in that each year the County provides additional incentive to companies receiving the State’s cybersecurity tax credit. Unlike the BIIP, the County’s supplement will be given to the company and not the investor.

No County cybersecurity companies received tax credits from the state during calendar year 2014. No companies applied for the State tax credit, so there is limited data on the reasons for low participation from Montgomery County companies. Possible reasons include, County companies didn’t raise equity in 2014, limitation on the types of investments that qualify (i.e. convertible debt does not qualify), or limited number of qualified cybersecurity companies are currently in the County. The \$500,000 appropriation remains available for County companies receiving tax credits during calendar year 2015.

G. Small Business Assistance Program

The Small Business Assistance Program (“SBAP”) was approved by the Council in Fiscal Year 2013 to provide assistance to small businesses located in either an enterprise zone or an urban renewal area that are adversely impacted by redevelopment projects located on property that is owned by the County or redevelopment projects that are financed in whole or in part by the County. The regulation and program policy are being developed and no funding was available for the SBAP during this reporting period.

H. Equity Investment Program

The Equity Investment Program was approved by County Council through Bill 3-13 and was added as a sub-program under EDF in Fiscal Year 2013. The bill authorizes the County to make an equity investment in a company located in, or relocated to

Montgomery County. Currently there is no separate appropriation for this program and the following equity investments were made using the funds under EDF.

| Recipient Name | County Equity | State Equity | Industry | Location |
|--------------------|---------------|--------------|---------------------------|-----------|
| ReelGenie | \$50,000 | \$100,000 | Technology and Info. Tech | Bethesda |
| Mobile System 7 | \$100,000 | \$200,000 | Technology and Info. Tech | Bethesda |
| CytImmune Sciences | \$100,000 | \$300,000 | Biotechnology | Rockville |

Due to the nature of this program, it will be used selectively to invest in private companies that demonstrate a potential return on the County's investment where the County is not the lead investor.

I. MOVE Program

The County Executive introduced the MOVE Program in March of 2014 to reduce the amount of Class A and B office space in the County. This program focuses entirely on attracting companies and provides assistance based on the applicant's leased square footage. The Pilot Program ran from March 2014 through January 2015 and contained the following criteria:

- Companies must be new to the County, either a relocation or a start-up
- Companies must operate in the biotechnology, cybersecurity, green technology, or information technology industry
- Companies must sign at least a three-year lease for a space between 2,000 and 10,000 square feet.
- Qualified applicants will receive a one-time grant of \$4 per square foot on the new lease

The expanded program began on February 1, 2015, which revised the criteria as follows:

- Companies can operate in **any industry**, except retail and restaurant
- Companies must sign at least a three-year lease that is **not greater than 10,000 square feet**
- Qualified applicants will receive a one-time grant of **\$8 per square foot** on the new lease

Applicants must still be new to the County and must still execute a commercial lease for at least three years with a landlord under the expanded MOVE Program. The following table details the recipients under the MOVE Pilot Program.

Table 14: MOVE Pilot Program Recipients – March 2014 through January 2015

| Company Name | MOVE Assistance | Square Footage | Industry | Location |
|--------------------------|-----------------|----------------|---------------------------|--------------|
| Advagenix | \$9,196 | 2,299 | Biotechnology | Rockville |
| Barr Group | \$13,664 | 3,416 | Technology and Info. Tech | Germantown |
| CustomerFirst Renewables | \$8,060 | 2,015 | Green Technology | Gaithersburg |
| L-Soft | \$19,400 | 4,850 | Technology and Info. Tech | Bethesda |
| TopAlliance Biosciences | \$14,688 | 3,672 | Biotechnology | Rockville |
| United Solutions | \$13,820 | 3,455 | Technology and Info. Tech | Rockville |
| Vtesse | \$15,500 | 3,875 | Biotechnology | Gaithersburg |
| TSC Advantage* | --- | --- | Technology and Info. Tech | --- |
| innoScience* | --- | --- | Technology and Info. Tech | --- |

* These companies qualified for the MOVE Program, however, chose to take advantage of the EDFGLP. DED had not received the final square footage and location at the time this report was printed.

- Most of the industries were either Biotechnology or Technology and Info. Tech.
- Total square footage filled under the MOVE Pilot Program was 23,582 square feet.

The MOVE Program provides additional benefits to the County apart from attracting new companies and filling office space. During the Pilot Program, DED fielded more than 50 calls from brokers and companies, which provided an opportunity to promote the County and its numerous programs and services available to the business community.

V. Performance and Outcome for EDF Sub-Programs

The EDF Program uses public dollars to generate direct and indirect economic benefit in the County. As is such, it is important that DED track and analyze the impact and outcome for each program. These sections detail the outcomes that are relevant to the current program needs and the long-term impact and economic benefit of the program.

A. EDF Grant and Loan Program

The EDFGLP provides assistance to businesses through conditional grants. In order to receive the conditional grant, each business enters into an EDF Agreement (“EDFA”) with the County. The EDFA details the goals the business must achieve in order for the conditional grant to become a permanent grant. Most EDFAs contain goals that focus on capital investment, job growth, and remaining in the County during the terms of the EDFA. A company that fails to achieve the required goals must pay back a portion or the entire conditional grant, depending on the EDFA. For example, a company that relocates out of the County will be required to pay back the entire conditional grant. Cases are considered satisfied if a business meets or exceeds the EDFA goals or pays

back the amount required by the EDFA. Cases are considered not satisfied if the business does not meet the EDFA goals and fails to pay back the required amount. These cases are forwarded to the Office of the County Attorney (“OCA”) for collection or uncollectable if the companies filed bankruptcy.

DED oversees the monitoring of each EDFA on an annual basis. Businesses are required by the EDFA to provide certain documents to verify achievement of their goals. For example, many businesses provide their Maryland Unemployment Insurance Contribution Report to provide details about employment and salary figures. DED collects these documents and verifies that the business is on track to meet the required goals of the EDFA.

Performance Outcome

The following tables provide details about the key performance, monitoring, and outcome data collected by DED through Report Year 2015 for the EDFGLP.

Table 15: EDFGLP Ten-year Outcome

| Outcome Category | Number of Recipients (% of Total) | Funding Amount (% of Total) | Amount Repaid |
|---|--------------------------------------|--------------------------------|---------------|
| Completed Cases | | | |
| Satisfied EDFA Terms | | | |
| Performance Criteria Fully Met | 10 (33.3%) | \$750,000 (14.8%) | \$0 |
| Performance Criteria Partially Met, Made Repayment | 9 (30.0%) | \$540,000 (10.7%) | \$291,650 |
| Performance Criteria Not Met, Made Repayment | 1 (3.3%) | \$230,000 (4.5%) | \$80,000 |
| Did Not Satisfy EDFA Terms | | | |
| Performance Criteria Not Met, Uncollectable or Sent to OCA Collection | 10 (33.3%) | \$3,550,000 (70.0%) | \$0 |
| Total Completed Cases | 30 | \$5,070,000 | |
| Active Cases | | | |
| Under Monitoring | 31 | \$21,104,150 | |

Note: Amount repaid is determined by individual pro rata job requirements in the agreement and does not equal total funding amount.

- 71.8% of the completed cases satisfied the EDFA terms in the past ten years, either meeting the goals or paying back the required amount; a decrease of 5.2% from the previous year.
- 81% of the uncollectable funds are from two cases – Bethesda Cultural Alliance and Zyngenia.

Table 16: EDFGLP Ten-year Outcome by Selected Category

| | Recipients | EDFA Performance Criteria | | | |
|----------------------------|------------|---------------------------|-----------------------|-----------------|--------------------|
| | | Fully Met | Partially Met, Repaid | Not Met, Repaid | Sent to Collection |
| Purpose | | | | | |
| Attraction | 16 | 5 | 4 | 1 | 6 |
| Retention | 14 | 5 | 5 | - | 4 |
| Range | | | | | |
| \$0 - \$50,000 | 14 | 5 | 5 | - | 4 |
| \$50,001 - \$100,000 | 10 | 3 | 4 | - | 3 |
| \$100,001 - \$500,000 | 4 | 2 | - | 1 | 1 |
| More than \$500,000 | 2 | - | - | - | 2 |
| Industry | | | | | |
| Association and Non-Profit | 1 | - | - | - | 1 |
| Biotechnology | 11 | 2 | 3 | 1 | 5 |
| Business Services | 3 | 2 | 1 | - | - |
| Education and Healthcare | 0 | - | - | - | - |
| Hospitality and Retail | 3 | 1 | 1 | - | 1 |
| Other | 2 | 2 | - | - | - |
| Technology and Info. Tech | 10 | 3 | 4 | - | 3 |

- Both attraction and retention projects had a similar success and failure rate.
- Biotechnology and Technology and Info. Tech were the industries with the most cases sent for collection; however, these industries represent the largest share of recipients at 73% of the completed cases.

Long-Term Retention

One of the County’s goals for the EDFGLP is to require that businesses remain in the County during the term of the EDFA. It is hoped that businesses will remain in the County long after the EDFA expires, providing continued economic benefit after the County’s initial investment. The following table lists whether EDFGLP recipients are still in the County or not by selected category, which includes current open cases as well.

Table 17: EDFGLP Long-Term Retention by Selected Category

| | Number of Recipients still in Mont. County during 2014 | | % of Recipients still in the County |
|-------------------------------------|--|----|-------------------------------------|
| | Yes | No | |
| EDFA Terms | | | |
| Satisfied | 17 | 3 | 85.0% |
| Not Satisfied | - | 10 | 0.0% |
| Under Monitoring | 31 | - | 100.0% |
| Purpose of Conditional Grant | | | |
| Attraction | 20 | 8 | 71.4% |
| Retention | 28 | 5 | 84.8% |
| Range of Conditional Grant | | | |
| \$0 - \$50,000 | 18 | 5 | 81.8% |
| \$50,001 - \$100,000 | 13 | 4 | 76.5% |
| \$100,001 - \$500,000 | 11 | 2 | 84.6% |
| More than \$500,000 | 6 | 2 | 75.0% |
| Industry | | | |
| Association and Non-Profit | - | 1 | 0.0% |
| Biotechnology | 17 | 6 | 73.9% |
| Business Services | 6 | - | 100.0% |
| Education and Healthcare | 1 | - | 100.0% |
| Hospitality and Retail | 5 | 1 | 83.3% |
| Other | 4 | 1 | 80.0% |
| Revitalization | 3 | - | 100.0% |
| Technology and Info. Tech | 12 | 4 | 75.0% |

- 78.7% of EDFGLP recipients are still operating in the County, including current open cases.

Job Performance

Most EDFGLP recipients are required to retain and create a certain number of jobs over the term of the EDFA. The initial job number is captured when the business submits the required documentation for the conditional grant disbursement. The job growth number is either captured at a specified time during the EDFA or at the end of the EDFA. For all cases, the final job count is the count recorded at the close of the case. The following table shows the outcome of job creation by industry for completed cases in the past ten years.

Table 18: Completed EDFGLP Cases Job Growth

| Industry | Recipients | Projected Jobs | Actual Jobs* | Actual as % of Projected |
|----------------------------|------------|----------------|--------------|--------------------------|
| Association and Non-Profit | 1 | 45 | 0 | 0.0% |
| Biotechnology | 11 | 432 | 536 | 124.1% |
| Business Services | 3 | 255 | 112 | 43.9% |
| Hospitality and Retail | 3 | 566 | 469 | 82.9% |
| Other | 2 | 178 | 173 | 97.2% |
| Technology and Info. Tech | 10 | 949 | 1040 | 109.6% |

*As measured at the close of the EDFA

- Combined, all industries achieved 96% of the projected 2,425 jobs required by the EDFAs.
- The Technology and Info. Tech industry represented 40.1% of the expected job growth and 43.3% of the actual job growth, the largest of any industry.

The EDFGLP helps to create high-paying jobs in the County. Higher salaries tend to produce spin-off effects by providing a greater ability to purchase more goods and services. This can have the indirect impact of creating additional jobs through the sale of these additional goods and services. The table below details the average salary of EDFGLP recipients based on select categories over the past ten years. Average salary was calculated using the unemployment insurance DLLR/DUI sheets that businesses must submit for reporting purposes.

Table 19: Average Salary of EDFGLP Recipients by Select Categories

| | Average Salary |
|-------------------------------------|----------------|
| Purpose of Conditional Grant | |
| Attract | \$91,000 |
| Retain | \$88,900 |
| Retain and Expand | \$95,000 |
| Industry | |
| Association and Non-Profit | \$66,900 |
| Biotechnology | \$106,300 |
| Business Services | \$99,800 |
| Education and Healthcare | \$66,350 |
| Hospitality and Retail | \$77,348 |
| Other | \$88,945 |
| Technology and Info. Tech | \$85,177 |

Projected Fiscal Impact vs. Actual Fiscal Impact

DED continues to collaborate with other departments to evaluate and determine the best method to record and report the actual fiscal impact associated with the EDFGLP cases.

B. Performance and Outcome TGP

TGP awards are typically structured as grants that convert to loans once the company reaches specified annual revenue goal or obtains specified equity financing goal within five years of the term. The conditional grant would be forgiven if the recipient companies are unsuccessful in reaching the revenue/equity financing goals but remain in the County or the company completely dissolves. The following table provides the outcome for TGP cases over the past ten years.

Table 20: Ten-Year Outcome Summary for TGP

| Outcome Category | Recipients (% of Total) | Funding Amount (% of Total) |
|--|----------------------------|-----------------------------------|
| Completed Cases | | |
| Grant Forgiven: TGPA revenue or investment goal not met and grant was forgiven as required by agreement | 28 (63.6%) | \$1,335,000 (58.4%) |
| Grant Repaid: TGPA revenue or investment goal met, and recipient repaid as required by agreement | 13 (29.6%) | \$715,000 (31.3%) |
| Grant Recalled, Collection: TGPA revenue or investment goal met and recipient failed to repay; sent to OCA for collection | 3 (6.8%) | \$235,000 (10.3%) |
| Total Completed Cases | 44 | \$2,285,000 |
| Active Cases | | |
| Under Monitoring | 5 | \$295,000 |

C. Performance and Outcome SBRLP

Performance of the SBRLP is dependent on the required monthly payments made by the loan recipients. Most of the cases require periodic follow-up and management to ensure that businesses continue to make the required payments. The following tables show the outcome for the SBRLP cases over the past ten years.

Table 21: Loan Outcome for SBRLP last Ten Years

| | # of Cases | % of Total | Loan Amount | Paid Back Amount | Written-Off Amount |
|---------------------------------|---------------|---------------|----------------|---------------------|-----------------------|
| Loan Outcome | | | | | |
| Still Open | 7 | 20% | \$368,459 | \$335,000 | - |
| Fully Paid-Off | 11 | 31% | \$620,000 | \$620,000 | - |
| Partial Repayment - Written Off | 12 | 34% | \$562,500 | \$112,620 | \$449,880 |
| Partial Repayment - Collection | 3 | 9% | \$195,000 | \$6,754 | - |
| Full Write-off | 2 | 6% | \$90,000 | \$0 | \$90,000 |

- The County collected 63.9% of the expected payments for the closed cases.

Table 22: Ten-Year Loan Outcome for SBRLP by Select Categories

| Loan Outcome | Paid Back | | Principal Write-off | |
|---------------------------|-----------|------------|---------------------|------------|
| | Value | % of Total | Value | % of Total |
| Industry | | | | |
| Biotechnology | \$75,000 | 10% | \$0 | 0% |
| Business Services | \$19,363 | 3% | \$25,637 | 5% |
| Hospitality and Retail | \$219,938 | 30% | \$444,743 | 82% |
| Other | \$60,000 | 8% | \$0 | 0% |
| Technology and Info. Tech | \$360,000 | 49% | \$69,500 | 13% |
| Location | | | | |
| Damascus | \$9,401 | 1% | \$5,599 | 1% |
| Gaithersburg | \$209,211 | 28% | \$34,548 | 6% |
| Olney | \$538 | 0% | \$14,463 | 3% |
| Rockville | \$309,948 | 42% | \$250,973 | 46% |
| Silver Spring | \$171,135 | 23% | \$138,365 | 26% |
| Wheaton | \$34,069 | 5% | \$95,931 | 18% |

Note: Current cases not included in this table.

- The Hospitality and Retail industry represents 82% of the total write-off value over the past ten years. This is primarily due to the difficulties restaurants and retail shops face, including high initial fixed costs and fluctuating revenues due to competition and challenging economic times.

Long-Term Retention

The County is interested in the long-term retention of the SBRLP recipients. For the past ten years, 65% of the SBRLP recipients still remain in the County. Only one business left the County due to higher cost of business operations within the County.

General Observation about SBRLP

The national economic recession impacted the regional and local economies in many sectors. Small businesses continue to face challenges to grow and prosper under these conditions. Hospitality and Retail Industry suffered the most as the direct consumer spending reduced significantly during the difficult economic times.

VI. Tax Credit Programs

In addition to the EDF programs, the County uses tax credits to incentivize the attraction and retention of businesses, spur economic growth both in jobs and construction, and enhance business development through development of arts. DED

continues to market the tax credit programs through outreach efforts, website updates, presentations, and coordination with other agencies/organization to the businesses in the enterprise zones.

Currently, Montgomery County offers the following tax incentive programs for companies seeking to locate, maintain, or expand their business in the County.

New Jobs Tax Credit

Qualifying businesses receive a Montgomery County tax credit against real and personal property taxes for a period of six years if they meet the following qualification: 1) re-locate or expand into at least 5,000 square feet of newly constructed and previously unoccupied premises; 2) employ at least 25 individuals in new, permanent full-time positions within a 24-month period in the new or expanded premises. In addition, qualifying businesses will also receive a State of Maryland tax credit, which is applied against individual or corporate income tax, insurance premiums tax, or financial institution franchise tax.

Enhanced New Jobs Tax Credit

An enhanced real and personal property tax credit is available for large businesses generating or creating major economic impacts in the County. This twelve-year credit is available to businesses that: 1) increase their space by at least 250,000 square feet; 2) create 1,250 new permanent, full-time positions or create 500 new, permanent full-time positions in addition to maintaining at least 2,500 existing permanent full-time positions, and 3) pay all these employees at least 150 percent of the federal minimum wage.

These New Jobs Tax Credit Program and Enhanced New Jobs Tax Credit Program are marketed by DED but administered and managed by DOF.

Enterprise Zone Tax Credit

The Enterprise Zone Tax Credit is an incentive for businesses to locate or expand facilities in a designated enterprise zone in Maryland. For either a new or an expanding business which meets the eligibility requirements, the amount of the credit is 80% of the taxes due on any expansion, renovation or capital improvement in the property over the first five years. For the subsequent five years, the credit decreases 10% annually. After ten years of property tax credits, the property is returned to the tax rolls at its full assessed value. The business can also apply for income tax credit if certain requirements of employment in the enterprise zone are met.

Currently, there are five enterprise zones in Montgomery County - Wheaton, Takoma Park/Long Branch, Glenmont, Burtonsville and Old Towne Gaithersburg.

Arts & Entertainment District Tax Credit

This 10-year credit reduces the increase in the County property tax when the assessment increases after construction or renovation of a building. The credit is available for space in manufacturing, commercial, or industrial buildings constructed or renovated for use by a qualifying resident artist or an arts and entertainment enterprise. Currently Wheaton, Silver Spring and Bethesda are three designated arts & entertainment districts in the County.

The table below shows the total tax credit amounts that businesses received in Levy Year 2014 (July 1, 2014 – June 30, 2015) under different programs.

Table 23: Levy Year 2014 Tax Credit Values

| Tax Credit Program | Levy Year 2014 |
|--|----------------|
| New Jobs Tax Credit | \$99,677 |
| Enhanced New Jobs Tax Credit | \$1,284,939 |
| Enterprise Zone Tax Credit | \$1,565,768 |
| Arts & Entertainment District Tax Credit | \$1,795 |



DEPARTMENT OF ECONOMIC DEVELOPMENT

Isiah Leggett
County Executive

Sally Sternbach
Acting Director

April 13, 2015

TO: Nancy Floreen, Chair
Montgomery County Council PHED Committee

FROM: Sally Sternbach, Acting Director
Department of Economic Development 

RE: Status of Executive Regulation 24-12, Small Business Assistance Program

The purpose of this memo is to respond to Council Member Nancy Navarro's inquiry on the status of the Executive Regulation 24-12, Small Business Assistance Program, required by the Bill 6-12 with the same title.

Council Member Nancy Navarro specifically requested response to four questions, and DED's responses are provided below each question.

1. When will businesses in Wheaton become eligible for the Small Business Assistance Program (Bill 6-12)?

The Bill 6-12 provides that the adversely impacted small businesses can apply for assistance from the County 12 months before the construction start date. Based on the latest information provided by DOT in April 2015, the construction start date is expected to be after September 2016. As such, adversely impacted small businesses in Wheaton can begin applying for assistance in mid-September 2015.

2. When will the County Executive transmit regulations to the Council for Bill 6-12?

DED expects that Small Business Need Assessment Study that is funded out of the Wheaton Redevelopment CIP project (P150401) will be completed by the end of May, providing valuable common and unique characteristics of 70-90 small business potentially impacted by the Wheaton redevelopment project.

The Study result will enable DED and the ER 24-12 working group comprised of staff from DGS, Mid-County Regional Service Center, and the County Council to fine tune the latest draft of ER 24-12 for the County Executive's review, approval, and transmittal to the County Council by the end of June 2015.

3. Does DED have adequate staff to implement the Small Business Assistance Program?

The Small Business Assistance Program will be administered under the auspices of the Economic Development Fund (EDF). Presently, a substantial portion of DED's Chief Operating Officer's capacity and two full time professional positions are dedicated to administering the following nine subprograms of the EDF, leaving no available capacity for additional program:

- ①. Economic Development Grant and Loan Program (since 1995)
- ②. Equity Investment Program (since 2013)
- ③. Small Business Revolving Loan Program (since 2000)
- ④. MOVE Program (since 2014)
- ⑤. Biotech Investor Incentive Program (since 2012)
- ⑥. Green Investor Incentive Program (since 2013)
- ⑦. Cyber Security Investor Incentive Program (since 2014)
- ⑧. Enterprise Zone Tax Credit Program (Long Branch, Wheaton, Glenmont)
- ⑨. Enterprise Zone like Tax Credit Program (Burtonsville)

Administering these financial incentive programs requires eight stages of time intensive endeavor:

- ①. Marketing
- ②. Prospect Identification
- ③. Due Diligence of Project & Fiscal/Economic Analysis
- ④. Decision, Offer, Agreement, and Loan Documents Packaging
- ⑤. Leveraging/Negotiating with the State and other Local Incentive
- ⑥. Closing Documents review and proofing
- ⑦. Performance Monitoring
- ⑧. Resolution of Default Cases/Loan Workout—with the Office of County Attorney

Based on the intent of the enabling legislation, DED anticipates that the Small Business Assistance Program will be the most time and labor intensive program under the EDF for the following reasons:

- ①. Using the inputs from the Small Business Assessment Report, Technical Assistance Program (even if operation is outsourced) must be set up in a relative short amount of time, and its effectiveness must be frequently monitored and evaluated.
- ②. Very frequent visits to 60-80 businesses will be required to monitor and document pre-construction operations, during construction operations, and post construction operations.

- ③. Assistance will be necessary in two stages; first, during the implementation of the Technical Assistance Program to prepare and position businesses to weather the construction period, and second, to actually evaluate revenue loss during and post construction to determine the amount and the timing of the monetary compensation.
- ④. Applications will be bunched together, all requiring a quick response.
- ⑤. Review and verification of revenue loss claims from businesses using tax returns, cash register receipts, bank statements, merchant account record, and/or inventory comparison will be highly complex and time consuming.
- ⑥. Amount of administrative work necessary to prepare internal documents to secure series of appropriations, and to process the payments to businesses (possibly multiple payments to same businesses over 2-3 year span) will be significant.

The Fiscal Impact Statement (FIS) done in 2012 referred to the need for additional staff. Additional staff are not funded in DED's FY16 CE Recommended Budget. Based on the FIS, we will also need additional appropriation to fund the grants for this program. We will not know the amounts that will be required for staffing or grants until the study and Executive Regulation are completed. Once funding requirements are determined, we anticipate requesting a supplemental appropriation if it is necessary.

4. What is the status of the Wheaton Small Business Assessment Program (SBAP) being conducted by the Department of General Services (DGS)?

The Department of General Services identified 113 businesses as being proximate to the planned Wheaton Redevelopment Project. Of this total, 21 businesses were determined to be ineligible for assistance through the SBAP due to business type or business size. Of the 92 remaining businesses, 57 have committed to the business assessment program - a participation rate of 62%. Only 7 businesses (8%) have directly declined. A significant number of businesses - 28 (30%) - remain undecided. While businesses were advised of a registration deadline of the first week of March, both SBDC (contractor for SBAP) and County staff are continuing to meet with undecided businesses to encourage participation.

| Small Business Assessments – Outreach as of 3/10/2015 | | | | | | | | | | |
|--|---------|------|------------|-----|----------|-----|-----------|-----|---------------|-----|
| Street | Total # | % | Ineligible | % | Declined | %* | Undecided | %* | Participating | %* |
| Georgia | 36 | 100% | 5 | 14% | 6 | 19% | 9 | 29% | 16 | 52% |
| Triangle | 23 | 100% | 3 | 13% | 1 | 4% | 5 | 25% | 14 | 70% |

| Street | Total # | % | Ineligible | % | Declined | %* | Undecided | %* | Participating | %* |
|---|------------|-------------|------------|------------|----------|-----------|-----------|------------|---------------|------------|
| Reedie | 15 | 100% | 3 | 20% | 0 | -- | 4 | 33% | 8 | 67% |
| Grand view | 24 | 100% | 4 | 17% | 0 | -- | 5 | 20% | 15 | 75% |
| Ennalls | 7 | 100% | 1 | 14% | 0 | -- | 3 | 50% | 3 | 50% |
| Viers Mill | 8 | 100% | 5 | 63% | 0 | -- | 2 | 67% | 1 | 33% |
| Total | 113 | 100% | 21 | 19% | | | | | | |
| | | | | | | | | | | |
| Total Eligible | 92 | 81% | | | 7 | 8% | 28 | 30% | 57 | 62% |
| | | | | | | | | | | |
| 1. Ineligibility may be due to due to business type or exceeding size limitations that the County establishes for its definition of "Small Business" consistent with the LSBRP. | | | | | | | | | | |
| * Percentage calculation is based on the eligible number of businesses | | | | | | | | | | |

Formal outreach for participating in the assessments commenced on November 4, 2014. SBDC initially canvassed the Wheaton Triangle Area door-to door to notify businesses of informational meetings to be conducted concerning business assessments, Bill 6-12, and the scope and status of the redevelopment project on Parking Lot 13.

Between November 10 and November 17, 2014, SBDC conducted 5 informational meetings - 4 with bilingual capability (English and Spanish) and 1 exclusively in Spanish. A second evening meeting - exclusively in Spanish - was held on January 5, 2015. The lapse between these meetings was intentional, given the Holiday Season in the interim.

To date, 19 businesses have committed to participate in the study. Delays occur between the time that a business commits to participating and when the assessment commences, principally due to the requirement that the business provide financial information prior to, or at the time of, the initial appointment. SBCDC has indicated that this is typical and consistent with prior experience in conducting business assessments. The following provides preliminary information on assessments conducted to date:

Nancy Floreen,
 April 13, 2015
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| Assessment Status – as of March 13, 2015 | | | | |
|---|-------------------|-------------------|--------------|--------------|
| Assessments | In English | In Spanish | Other | Total |
| Conducted | 7 | 7 | – | 14 |
| Scheduled | 3 | 2 | | 5 |
| Business Type | | | | |
| Retail | 5 | 3 | | 8 |
| Professional Service | 2 | 3 | | 5 |
| Personal Service | | | | |
| Restaurant | | 1 | | 1 |
| | | | | |
| Financial Information Provided | 7 | 7 | | 14 |
| | | | | |
| Profitability | 6 | 6 | | 12 |
| | | | | |

Given the limited number of assessments to date, no preliminary estimations of funding requirements for the Small Business Assistance Program have been provided.

I hope this memo adequately addresses Council Member Nancy Navarro’s questions. If you have any additional questions, please contact and Peter Bang in DED (x72008) who will provide any other information related to the Executive Branch preparation of the Executive Regulation 24-12.