

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1628 (Delegate Barve)
 Rules and Executive Nominations

**Maryland Small Business Innovation Research and Technology Transfer
 Incentive Program and Fund**

This bill establishes the Maryland Small Business Innovation Research and Technology Transfer (SBIR/STTR) Incentive Program and Fund administered by the Maryland Technology Development Corporation (TEDCO). Subject to specified conditions, an eligible business may apply for a grant to (1) reimburse 50% of specified costs of preparing and submitting a SBIR/STTR Phase I proposal, up to \$3,000 and (2) match funds received as a SBIR/STTR Phase I award, up to \$100,000. TEDCO must adopt regulations necessary to implement and administer the program, and must include a detailed description of the grants awarded in its annual report to the Governor and General Assembly.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund expenditures increase by \$1.0 million to \$2.0 million annually beginning in FY 2017 to provide sufficient funding for a viable program; for purposes of this estimate, the midpoint is shown. Special fund revenues and expenditures increase correspondingly for TEDCO staff and administrative costs and to issue grants to eligible businesses under the program. Ultimately, funding for the program is subject to funds being provided in the State budget.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
SF Revenue	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5
GF Expenditure	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5
SF Expenditure	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5
Net Effect	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The purpose of the program is to foster job creation and economic development in the State by:

- promoting the commercialization of research conducted by an eligible business in the State;
- facilitating the transfer of technology from an eligible business;
- offsetting the costs incurred by an eligible business when applying to a participating federal agency for SBIR/STTR awards; and
- encouraging an eligible business to apply for SBIR/STTR Phase II awards.

The Maryland SBIR/STTR Incentive Fund is established as a special, nonlapsing fund, administered by TEDCO. The fund consists of (1) appropriations as provided in the State budget; (2) money donated to the fund; (3) investment earnings of the fund; and (4) any other money from any other source accepted for the benefit of the fund. Any interest earned on money in the fund remains in the fund. The fund may be used only to award grants under the program and to pay the costs necessary to administer the program.

To qualify for a grant under the program, an eligible business must meet the following requirements:

- maintain its principal place of business in the State;
- submit a qualified SBIR/STTR Phase I proposal to a participating federal agency in response to a specific federal solicitation, and *if seeking matching funds*, submit a final SBIR/STTR Phase I report, demonstrate that the sponsoring federal agency has interest in the Phase II proposal, and submit a SBIR/STTR Phase II proposal;
- satisfy all federal SBIR/STTR requirements;
- certify that at least 60% of the research described in the federal SBIR/STTR Phase I or Phase II proposal will be conducted in the State and that the business will remain a State-based business for at least one year after receiving a grant or for the duration of the Phase I or Phase II project, whichever is later; and
- demonstrate the ability of the eligible business to conduct research in its SBIR/STTR Phase I proposal.

An eligible business may not qualify for a grant under the program if the business receives concurrent funding from other sources that duplicates the purpose of the program.

An eligible business may apply for a grant to (1) reimburse 50% of specified eligible costs of preparing and submitting a SBIR/STTR Phase I proposal, up to \$3,000 and (2) match funds received as a SBIR/STTR Phase I award, up to \$100,000. Three-quarters of the matching funds must be distributed after receipt of the SBIR/STTR Phase I award by the sponsoring federal agency, with the remaining quarter distributed on submission to and acceptance by the federal agency of the Phase II application and report.

An eligible business may not receive more than one grant per calendar year, one grant for each SBIR/STTR proposal, and five grants in total.

Current Law/Background:

TEDCO

TEDCO was launched in 1998 to help commercialize the results of scientific research and development conducted by higher education institutions, federal laboratories, and private-sector organizations. TEDCO also aims to promote new research activity and investments that lead to business development in Maryland.

To achieve its goals, TEDCO provides investments to early stage technology businesses, and it funds development and patenting of new technologies at research universities. TEDCO also develops linkages with federal research facilities in the State and helps companies pursue research funds from federal and other sources.

TEDCO has 21 full-time positions and 6 part-time positions (TEDCO employees are not State employees). The fiscal 2017 budget includes a general fund grant of \$19.5 million for TEDCO. Programmatically, the general fund grant includes funds for the Technology Commercialization Fund, the Maryland Industrial Partnership Program, the Rural Business Initiative, the Cyber Security Investment Fund, the BioMaryland Grant Program, the Maryland Innovation Initiative, and the Maryland Stem Cell Research Program. TEDCO allocates remaining general funds across its operational functions. Special funds are included in TEDCO's budget for the first time in fiscal 2016 due to the transfer of the Maryland Venture Fund from the Department of Economic Competitiveness and Commerce.

A detailed description of TEDCO's programs and funding can be found in the Department of Legislative Services' (DLS) operating [budget analysis](#) for TEDCO on the DLS website.

SBIR/STTR

The U.S. Small Business Administration Office of Technology administers the SBIR Program and the STTR Program. Through these two competitive programs, small, high-tech, innovative businesses are a significant part of the federal government’s research and development efforts. Phase I awards are made to evaluate the feasibility and merit of a scientific or technical idea. Phase II awards are granted to expand on the results of a Phase I concept. **Exhibit 1** shows the number and dollar amount of Phase I and II awards to Maryland businesses from 2013 through 2015 (2015 data is subject to revision).

Exhibit 1
SBIR/STTR Phase I and II Awards to Maryland Businesses
2013-2015

SBIR/STTR Awards – Phase I	<u>2013</u>	<u>2014</u>	<u>2015</u>
Number of awards	174	196	176
Number of firms	95	95	85
Award amount	\$28,685,991	\$40,610,573	\$23,336,371
SBIR/STTR Awards – Phase II			
Number of awards	74	87	71
Number of firms	50	62	42
Award amount	\$77,097,758	\$93,013,521	\$58,797,093

SBIR/STTR: Small Business Innovation Research and Technology Transfer

Source: U.S. Small Business Administration

In March 2014, the President of the Senate and the Speaker of the House of Delegates established and appointed the Maryland Economic Development and Business Climate Commission to focus on the State’s economic development structure and incentive programs in order to make recommendations to the Presiding Officers. Testimony before the commission indicated that SBIR awardees are often start-up businesses that encounter difficulty in raising necessary capital beyond the federal grant itself and suggested that State support of these businesses would lead to successful commercialization and sustainability of them. The commission’s 2014 interim [report](#) recommended that Maryland create a program that provides matching grants for SBIR awardees, and that TEDCO should administer the program and target those businesses that are in industries important to the State’s strategic economic development plan. The report can be found on the DLS website.

State Fiscal Effect: The bill does not specify or mandate a level of funding for the program. Under the program, an eligible business may apply for a grant to (1) reimburse 50% of specified costs of preparing and submitting a SBIR/STTR Phase I proposal, up to \$3,000 and (2) match funds received as a SBIR/STTR Phase I award, up to \$100,000. As noted above, in 2014, 95 firms received a Phase I award and 87 firms received a Phase II award (data for 2015 is still subject to change).

TEDCO advises that it requires one program administrator and additional administrative support services to administer the program. Combined, these costs total approximately \$125,000 annually. If the program provides four grants per month of \$3,000 for application costs and one grant per month of \$100,000 for matching funds, total program expenditures are approximately \$1.5 million annually. Under these assumptions and based on 2014 data, this provides a \$100,000 grant to about one out of every eight businesses that receive a Phase I award in a year. However, varying the value and/or quantity of grants increases or decreases this estimate, and annual costs ranging from \$1.0 million to \$2.0 million (or more) are equally possible.

Therefore, general fund expenditures increase by approximately \$1.0 million to \$2.0 million annually beginning in fiscal 2017 to provide sufficient funding for a viable program. Special fund revenues and expenditures increase correspondingly for TEDCO staff and administrative costs and to issue grants to eligible businesses under the program. Ultimately, funding for the program is subject to funds being provided in the State budget.

Small Business Effect: Small businesses that receive grants under the program benefit from the additional funding, which may lead to further research and development grants under the SBIR/STTR programs or other sources.

Additional Information

Prior Introductions: SB 961 of 2012, a similar bill, received a hearing from the Senate Finance Committee, but no further action was taken. Its cross file, HB 1198, received an unfavorable report from the House Economic Matters Committee. HB 571 of 2011, a similar bill, received an unfavorable report from the House Economic Matters Committee.

Cross File: SB 1110 (Senator Feldman) - Finance.

Information Source(s): Maryland Technology Development Corporation, Department of Commerce, University System of Maryland, U.S. Small Business Administration, Department of Legislative Services

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min/rhh

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