

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 Third Reader

House Bill 1211
 Ways and Means

(Delegate D. Barnes)

Finance and Budget and Taxation

Economic Development – Maryland Technology Development Corporation –
 Pre-Seed Builder Fund

This bill establishes the Pre-Seed Builder Fund in the Maryland Technology Development Corporation (TEDCO) as the successor to the Pre-Seed Builder Fund established in TEDCO regulations. The purpose of the fund is to support the development of start-up companies run by entrepreneurs from socially or economically disadvantaged backgrounds that hinder access to traditional forms of capital and executive networks at the pre-seed stage. TEDCO must manage and supervise the fund. The Governor must include an appropriation to the fund of \$5.0 million in fiscal 2023, \$6.2 million in fiscal 2024, and \$7.5 million annually beginning in fiscal 2025. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: General fund expenditures increase by \$4.0 million in FY 2023, \$5.2 million in FY 2024, and \$6.5 million annually thereafter, assuming existing funding levels of \$1.0 million annually would have otherwise continued. Special fund revenues and expenditures increase by \$1.0 million in FY 2022, \$5.0 million in FY 2023, \$6.2 million in FY 2024, and \$7.5 million annually thereafter, reflecting the diversion of existing general fund expenditures into the special fund and the bill’s additional required funding. **This bill establishes a mandated appropriation beginning in FY 2023.**

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
SF Revenue	\$1.0	\$5.0	\$6.2	\$7.5	\$7.5
GF Expenditure	\$0	\$4.0	\$5.2	\$6.5	\$6.5
SF Expenditure	\$1.0	\$5.0	\$6.2	\$7.5	\$7.5
Net Effect	\$0.0	(\$4.0)	(\$5.2)	(\$6.5)	(\$6.5)

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

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Meaningful.

Analysis

Current Law: TEDCO is an independent entity established by the Maryland General Assembly in 1998 to facilitate the creation of technology companies and encourage collaboration between these emerging businesses and federal and State research laboratories. TEDCO also aims to promote new research activity and investments that lead to business development in Maryland.

TEDCO's Builder Fund (formerly the Minority Business Pre-Seed Fund) program, with requirements established in regulation under TEDCO's general authority, provides both early-stage investments and executive management services and mentorship to companies run by individuals with a socially or economically disadvantaged background that hinders access to traditional forms of capital. Specific to the Builder Fund, in addition to meeting TEDCO's general eligibility requirements, a business must meet the following requirements:

- at least one founder or executive manager works at the applicant company full-time;
- the founder of the applicant company has a demonstrated economic disadvantage;
- if required by TEDCO, the founders, managers, or officers agree to receive executive support; and
- if there is more than one founder, founders with a combined ownership of at least 50% have demonstrated economic disadvantage.

Under TEDCO regulations, TEDCO may make an investment of up to \$100,000 in each business selected for participation in the Builder Fund.

State Fiscal Effect: The Builder Fund program has received \$1.0 million in general funds each year from fiscal 2020 through (as proposed) 2022. Assuming this amount of funding would have otherwise continued in fiscal 2023 and later, general fund expenditures are unchanged in fiscal 2022, increase by \$4.0 million in fiscal 2023, \$5.2 million in fiscal 2024, and \$6.5 million annually thereafter to meet the bill's funding mandate. To the extent that existing funding would have ceased, general fund expenditures increase by an additional \$1.0 million from the amounts described above.

The Pre-Seed Builder Fund is established as a special fund, effective July 1, 2021. Therefore, special fund revenues and expenditures increase by \$1.0 million in fiscal 2022, \$5.0 million in fiscal 2023, \$6.2 million in fiscal 2024, and \$7.5 million annually thereafter. This reflects the diversion of existing general fund expenditures of \$1.0 million annually beginning in fiscal 2022 and the bill's total required funding beginning in fiscal 2023.

Expanding the program's funding requires additional TEDCO staff and associated administrative expenses beginning in fiscal 2023. The bill does not clearly allow or disallow TEDCO administrative expenses associated with the program to be paid for with the special funds. Consistent with the uses of the current general fund appropriation for the program, and how TEDCO allocates administrative costs for the Maryland Venture Fund, this estimate assumes that administrative costs are paid from the special fund. TEDCO estimates additional costs of approximately \$0.5 million in fiscal 2023 and approximately \$0.6 million annually thereafter for staff and various legal, information technology, marketing, travel, and other administrative expenses, which reduces available funding for programmatic expenses in each year but leaves overall special fund expenditures unchanged from the above amounts. TEDCO employees are not State employees.

General fund expenditures further increase to the extent that additional funds are instead provided for TEDCO's administrative costs, and the full level of mandated funding is available for programmatic uses each year.

This estimate assumes that special fund revenues and expenditures increase correspondingly as funds are received and then used for authorized purposes in the same year, although the timing of expenditures may vary based on how the program investments are structured. As the Pre-Seed Builder Fund program makes investments, special fund revenues may increase in future years from investment returns, followed by special fund expenditures as those funds are redistributed under the program.

Small Business Effect: Funding for TEDCO's current Builder Fund program is expanded significantly from existing levels. The program will be able to provide early-stage investments and executive management services and mentorship to many more small businesses with the mandated levels of funding in the bill.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Maryland Technology Development Corporation; Department of Budget and Management; Department of Legislative Services

Fiscal Note History: First Reader - February 25, 2021
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