

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 639
 Finance

(Senator Augustine, *et al.*)

Ways and Means

**Maryland Technology Development Corporation – Inclusion Fund –
 Establishment**

This bill establishes the Inclusion Fund in the Maryland Technology Development Corporation (TEDCO) as a special, nonlapsing fund. The purpose of the fund is to provide capital investment in technology-based businesses that (1) would qualify for investment under the Builder Fund, as provided in TEDCO regulations; (2) are at least 30% owned by individuals who demonstrate economic disadvantage; and (3) are controlled and managed for at least one year after the time of investment by an individual or individuals who demonstrate economic disadvantage. The fund may be used only for the above purpose and for TEDCO’s administrative expenses. TEDCO must include, in its annual report, information on implementation of the fund.

Fiscal Summary

State Effect: General fund expenditures increase by \$1.5 million annually beginning in FY 2022, under the assumptions discussed below. Special fund revenues and expenditures for TEDCO increase correspondingly and may further increase due to investment proceeds in future years. General fund expenditures may further increase if TEDCO chooses to provide certain additional support services, as discussed below.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
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 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 full time;
- the founder of the applicant 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.

State Fiscal Effect: While the applicability of the bill is not entirely clear, this analysis assumes that the Inclusion Fund applies to companies that either did qualify, or would have qualified, for investment under the Builder Fund (a pre-seed fund), but no longer qualify as having majority economically disadvantaged ownership after growing from the pre-seed investment stage. In other words, the Inclusion Fund is a seed fund, for next-stage investments in companies that have grown since their pre-seed stage – when they had at least 50% ownership with demonstrated economic disadvantage – and consequently no longer meet that threshold. Under TEDCO regulations, TEDCO may make an investment of up to \$100,000 in each business selected for participation in the Builder Fund. For TEDCO's seed funds, TEDCO generally may invest up to \$200,000.

This estimate assumes that sufficient general funds are provided to the Inclusion Fund each year for TEDCO to provide \$1.5 million in investments to eligible companies, in amounts consistent with the Inclusion Fund being a seed fund (up to \$200,000 per company). For a program this size, existing TEDCO staff can handle the additional administrative duties. Expanding the program further would require additional staff. Actual amounts provided to TEDCO under the bill are discretionary.

Accordingly, general fund expenditures increase by \$1.5 million in fiscal 2022 and annually thereafter, which is an amount sufficient for TEDCO to invest in seven to eight companies each year (including the first year, despite the bill's October 1, 2021 effective date). 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 bill authorizes TEDCO to make investments, special fund revenues may increase in future years from investment returns, followed by special fund expenditures as those funds are reinvested under the program.

If TEDCO chooses to provide similar support services as the Builder Fund, such as mentorship or executive management services, those support services likely need to be funded through general funds, as the Inclusion Fund may only be used to provide capital investments and pay administrative expenses. This would either (1) further increase general fund expenditures to maintain capital investment amounts described above through the Inclusion Fund or (2) result in less funding for capital investments than the amounts described above through the Inclusion Fund.

The Department of Legislative Services notes that the Builder Fund program has received \$1.0 million in general funds each year from fiscal 2020 through (as proposed) 2022.

Small Business Effect: Small businesses that receive funding under the bill benefit significantly to the extent that they would not otherwise have received assistance from TEDCO; typical seed-stage investments from TEDCO are up to \$200,000.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 19, 2021
rh/vlg Third Reader - March 31, 2021
Revised - Amendment(s) - March 31, 2021

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510