

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1384
 Ways and Means

(Delegate Qi)

Rules

Economic Development - Industry 4.0 Technology Grant Program (Maryland
 Manufacturing Innovation Act of 2022)

This bill establishes the Industry 4.0 Technology Grant Program and a Maryland Manufacturing 4.0 Initiative Governance Committee in the Department of Commerce. The purpose of the program is to assist small or medium-sized enterprise (SME) manufacturers in adopting Industry 4.0 technology and related infrastructure in order to increase productivity, efficiency, and competitiveness in the State and national manufacturing environment. Commerce must award a dollar-for-dollar matching grant for the cost of each eligible project and a grant awarded to an SME manufacturer must be at least \$25,000. The Governor must include in the annual budget bill an appropriation of \$1.0 million annually to the program beginning in fiscal 2024. **The bill terminates September 30, 2025.**

Fiscal Summary

State Effect: General fund expenditures increase by \$56,700 in FY 2023 and, in FY 2024 through 2026, by \$1.0 million annually for the grant program within Commerce. The mandated funding is assumed to include administrative costs. To the extent that grants are recaptured, general fund revenues increase. **This bill establishes a mandated appropriation in FY 2024 through 2026.**

| (in dollars) | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|----------------|------------|---------------|---------------|---------------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 56,700 | 1,000,000 | 1,000,000 | 1,000,000 | 0 |
| Net Effect | (\$56,700) | (\$1,000,000) | (\$1,000,000) | (\$1,000,000) | \$0 |

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: “Industry 4.0 technology” means smart hardware and software manufacturing technologies, and the bill specifies what it includes.

The Secretary of Commerce must appoint members of the Maryland Manufacturing 4.0 Initiative Governance Committee, and the membership must represent the State’s diversity. The committee must:

- research best practices from other states in implementing programs similar to the program established by the bill;
- establish the program application process for SME manufacturers and eligibility criteria for participation in the program that represent best practices;
- create guidelines for the distribution and use of program funds that represent best practices; and
- in collaboration with the Governor’s Office of Small, Minority, and Women Business Affairs (GOSBA), encourage participation of minority business enterprises in the program.

The bill describes the application requirements. A grant awarded under the program may be used, in accordance with the guidelines established by the committee, for projects that directly affect manufacturing processes and focus on investments in Industry 4.0 technology commercial-ready equipment through established vendors or related infrastructure. Within one year after receiving a grant under the program, an SME manufacturer must submit to Commerce a letter that describes how grants were used and includes specified invoices. Commerce may require a grant recipient to return all or part of the grant for failing to fulfill the grant’s requirements.

The Secretary of Commerce must adopt regulations to implement the bill.

Current Law: Chapters 581 and 582 of 2021 established the Workgroup to Study the Transformation of Manufacturing in Maryland’s Emerging Digital Economy, staffed by Commerce. The workgroup is charged with a wide variety of issues to examine and on which to make recommendations, such as relevant professional research, public-private partnerships, State funding levels, new tax credits, and the State’s current statutory and regulatory authority over manufacturing. Among its responsibilities, the workgroup must examine financial resources available to manufacturers seeking to invest in Industry 4.0 technology and examine the State’s current statutory and regulatory authority over manufacturing to examine potential reforms to attract new manufacturing businesses brought by Industry 4.0 to invest in the State’s economy and workforce. The workgroup submitted an [interim report](#) of its findings to the Governor and the General Assembly in

December 2021. By December 1, 2022, the workgroup must report its final findings and recommendations to the Governor and General Assembly.

State Revenues: To the extent Commerce requires a grant recipient to return all or part of the grant for failing to fulfill the grant’s requirements, general fund revenues increase.

State Expenditures: The fiscal 2023 budget includes \$1.0 million in general funds for a pilot program known as the Maryland Manufacturing Modernization (M3) Program. The M3 Program will provide grants to small or mid-sized manufacturing businesses to implement Industry 4.0 technologies. Commerce advises that it will likely structure the M3 Program so that funding for the M3 Program may be used to make grants under the Industry 4.0 Technology Grant Program in fiscal 2023. Accordingly, staff is needed beginning in fiscal 2023. To the extent that the M3 Program funding is not applied to the Industry 4.0 Technology Grant Program, Commerce may need additional funds in fiscal 2023 to provide grants, although grant funding under the bill is discretionary in fiscal 2023.

Thus, general fund expenditures increase by \$56,728 in fiscal 2023, which accounts for the bill’s October 1, 2022 effective date. This estimate reflects the cost of hiring one contractual program manager to develop and then administer the grant program and staff the committee. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

| | |
|---|-----------------|
| Contractual Position | 1.0 |
| Salary and Fringe Benefits | \$49,385 |
| Operating Expenses | <u>7,343</u> |
| Total FY 2023 State Expenditures | \$56,728 |

This estimate does not include any health insurance costs that could be incurred for the specified contractual employee under the State’s implementation of the federal Patient Protection and Affordable Care Act.

In accordance with the bill’s mandated appropriation, general fund expenditures for Commerce increase by \$1.0 million annually in fiscal 2024 through 2026 for the Industry 4.0 Technology Grant Program. This estimate assumes that grants are distributed in fiscal 2026 before the program terminates on September 30, 2025. It also assumes the mandated funding can be used for ongoing administrative costs, and it reflects a salary with annual increases, employee turnover, other operating expenses, and residual funding (of approximately \$940,000 in fiscal 2024 and 2025 and \$980,000 in fiscal 2026) being used for ongoing grant awards. To the extent the intent of the bill is that the entire \$1.0 million be used for grants, general fund expenditures increase further for the administrative staffing

costs. This analysis does not account for ongoing funding that may be provided for the M3 Program and, thus, potentially offset the amount of the mandated appropriation.

GOSBA can collaborate with the committee with existing resources.

Small Business Effect: Small businesses that are SME manufacturers may benefit significantly from receiving matching grants of at least \$25,000 provided by Commerce under the bill.

Additional Comments: “Industry 4.0” is a term used to capture the way emerging technologies will affect the manufacturing industry in the future. The concept focuses on interconnectivity, automation, artificial intelligence, robotics, 3D printing, machine learning, and real-time data.

Given the bill's termination date, many recipients of grants in fiscal 2025 and likely all recipients of grants in fiscal 2026 may not have to fulfill the requirement to provide a status letter, including invoices, to Commerce within one year of receiving an award.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Commerce; Department of Budget and Management; Governor’s Office of Small, Minority, and Women Business Affairs; Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2022
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Analysis by: Heather N. MacDonagh

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