

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1095 (Delegate Buckel)
 Ways and Means

Economic Development - Maryland Technology Development Corporation -
 Rural Business Innovation Initiative Fund

This bill establishes the Rural Business Innovation Initiative (RBII) Fund in the Maryland Technology Development Corporation (TEDCO) as the successor to the RBII Fund established in TEDCO regulations. The purpose of the fund is to make pre-seed investments in technology-based businesses that maintain principal business operations in rural areas or rural communities. TEDCO must manage and supervise the fund. The Governor must include an appropriation to the fund of \$500,000 annually beginning in fiscal 2024. Money appropriated to the fund must be used to supplement, not supplant, money that the fund receives from other sources. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: General fund expenditures increase by \$500,000 annually beginning in FY 2024. Special fund revenues and expenditures increase by \$500,000 in FY 2023 and \$1.0 million annually thereafter, as discussed below. **This bill establishes a mandated appropriation beginning in FY 2024.**

| (\$ in millions) | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|------------------|---------|---------|---------|---------|---------|
| SF Revenue | \$0.5 | \$1.0 | \$1.0 | \$1.0 | \$1.0 |
| GF Expenditure | \$0 | \$0.5 | \$0.5 | \$0.5 | \$0.5 |
| SF Expenditure | \$0.5 | \$1.0 | \$1.0 | \$1.0 | \$1.0 |
| Net Effect | \$0.0 | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.5) |

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: Potential 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 RBII program, with requirements established in regulations under TEDCO's general authority, provides pre-seed investment, technical and business assistance, mentoring services, and operational support to small or early-stage technology-based businesses in rural areas or rural communities.

The RBII Fund seeks to make investments that TEDCO determines have the potential to enable the business to advance to the next stage of venture investment and to become an attractive applicant for other TEDCO investment programs not less than 12 to 24 months after investment by the RBII Fund.

Specific to the RBII program, in addition to meeting TEDCO's general eligibility requirements, the applicant's principal business operations must be in a rural area or a rural community and, at the time of the application, the applicant must have received mentoring services from the RBII program for at least 90 days.

Under TEDCO regulations, TEDCO may invest up to \$25,000 per investment in the RBII Fund.

State Fiscal Effect: The RBII program has been allocated \$500,000 in TEDCO funding (from its general fund appropriation) each year from fiscal 2021 through (as proposed) 2023. As the bill requires the mandated appropriation to supplement and not supplant money that the fund receives from other sources, this analysis assumes that the recent allocations from TEDCO continue and are treated as funding from other sources. Therefore, general fund expenditures increase by \$500,000 annually beginning in fiscal 2024 to meet the bill's funding mandate.

Even though an RBII Fund is referenced in regulations, the bill establishes the RBII Fund as a special fund, effective July 1, 2022. Therefore, special fund revenues and expenditures are assumed to increase by \$500,000 in fiscal 2023, reflecting general funds anticipated to be allocated to the program being used to capitalize the new special fund, and by \$1.0 million annually beginning in fiscal 2024, reflecting both the existing funding for the program and the bill's additional mandated funding beginning that year.

Expanding the program's funding requires additional TEDCO staff and associated administrative expenses beginning in fiscal 2024. 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 other programs, this estimate assumes that administrative costs are paid from the special fund. TEDCO estimates additional costs of approximately \$50,000 annually for one part-time staff (0.5 full-time equivalent) and various information technology, marketing, accounting, 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 RBII 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 RBII Fund program is expanded significantly from existing levels. Start-up and technology-based small businesses in the rural areas of Maryland benefit from pre-seed investment, technical and business assistance, mentoring services, and operational support under the RBII program. The Task Force on the Economic Future of Western Maryland noted 87% of RBII-funded companies are still in operation.

Additional Comments: Chapter 207 of 2020 established the Task Force on the Economic Future of Western Maryland, staffed by the Department of Commerce. The task force was required to study the economic conditions of Western Maryland and make recommendations on potential methods to improve the economies of Allegany, Garrett, and Washington counties. TEDCO participated as a member of the task force. The bill implements a recommendation made in the task force's [interim report](#), which was reiterated in its [final report](#).

An alternative interpretation is that the bill ensures current funding is maintained at \$500,000 a year.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 845 (Senators Edwards and Corderman) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 27, 2022
km/ljm

Analysis by: Heather N. MacDonagh

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