

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1479
 Ways and Means

(Delegate Lierman)

Budget and Taxation

Maryland Technology Development Corporation - Maryland Equity Investment Fund - Established

This bill establishes the Maryland Equity Investment Fund in the Maryland Technology Development Corporation (TEDCO). The purpose of the fund is to allow unappropriated general fund surplus to be invested in a “qualified business” – with a goal to increase private equity and venture capital in the State – and the interest earnings and investment returns realized to the benefit of participants of the several pension systems managed by the State Retirement and Pension System (SRPS). For fiscal 2024, the Governor must include an appropriation to the new fund equal to 10% of the unappropriated general fund surplus in excess of \$10.0 million from the second prior fiscal year, up to a maximum of \$10.0 million, with up to \$15.0 million instead of up to \$25.0 million being appropriated to the SRPS accumulation funds (trust fund) that year. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: No effect in FY 2023. Special fund revenues for TEDCO may increase by up to \$10.0 million in FY 2024, and nonbudgeted revenues to the SRPS trust fund decrease commensurately. Special fund expenditures for the Maryland Equity Investment Fund increase by up to a total of \$10.0 million from FY 2024 through 2028. Special/nonbudgeted fund revenues and special fund expenditures may further increase from investment returns, likely beginning in FY 2029. **This bill modifies a mandated appropriation for FY 2024.**

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
SF Revenue	\$0	\$10,000,000	\$0	\$0	\$0
NonBud Rev.	\$0	(\$10,000,000)	\$0	\$0	\$0
SF Expenditure	\$0	\$9,600,000	\$100,000	\$100,000	\$100,000
Net Effect	\$0	(\$9,600,000)	(\$100,000)	(\$100,000)	(\$100,000)

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: TEDCO must manage and supervise the Maryland Equity Investment Fund. The fund is a special, nonlapsing revolving fund. The Treasurer must hold the fund, and the Comptroller must account for the fund. The fund may only be used for purposes described in the bill and to pay administrative costs. TEDCO may retain 50% of investment returns realized from the investments made under the bill, and any other investment earnings of the fund and investment returns realized from investments made under the bill must be credited to the accumulation funds of the several pension systems.

A “qualified business” is a business that, at the time of the first investment, has its principal business operations located in the State and intends to remain in the State after receiving an investment; has agreed to use the qualified investment primarily to support business operations in the State or, in the case of a start-up company, establish and support business operations in the State; and has no more than 250 employees. A “qualified business” is not primarily engaged in retail sales; real estate development; the business of insurance, banking, or lending; or the provision of professional services by accountants, attorneys, or physicians.

Current Law: The Governor must make the following appropriations in the budget bill for fiscal 2022 and each fiscal year thereafter:

- an amount equal to one-quarter of the unappropriated general fund surplus in excess of \$10.0 million from the second prior fiscal year must be paid to the SRPS trust fund, up to a maximum of \$25.0 million annually;
- an amount equal to one-quarter of the unappropriated general fund surplus in excess of \$10.0 million from the second prior fiscal year must be paid to the Postretirement Health Benefits Trust Fund (more commonly known as OPEB), up to a maximum of \$25.0 million annually; and
- the remainder of unappropriated general fund surplus in excess of \$10.0 million from the second prior fiscal year must be paid to the Revenue Stabilization Account (more commonly known as the Rainy Day Fund).

Maryland Technology Development Corporation

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. To achieve its goals, TEDCO provides nonequity 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. The corporation's role was expanded in fiscal 2016 with the enactment of Chapter 141 of 2015 to transfer the operation of the Maryland Venture Fund and the biotechnology grant program from the Department of Commerce.

Similar Private Equity and Venture Capital Investments

Chapter 459 of 2016 authorized the SRPS Board of Trustees to enter into an agreement with TEDCO or another entity to make and manage investments on behalf of the board in private equity and venture capital in the State. It also expressed legislative intent that State contributions to the pension fund in excess of statutory requirements be invested in the State with a goal to increase the risk capital available in the State as long as the investments are consistent with, and do not compromise or conflict with, the SRPS board's fiduciary duties. The investments made under Chapter 459 were required to include a goal that 50% of the funds be invested in commercialization of technology sponsored or created by a university in the State. The fiscal 2017 budget included \$25.0 million in excess of specified statutorily required payments at the time, and that amount was made available for investment under an agreement between the SRPS Board of Trustees and TEDCO.

The SRPS Board of Trustees finalized an agreement with TEDCO in November 2017 to administer the investment program authorized by Chapter 459. The first capital call, totaling nearly \$2.0 million, occurred in February 2018. In addition, Chapters 727 and 728 of 2018 established that, for fiscal 2019 through 2022, the \$75.0 million supplemental contribution that is statutorily required to be paid by the State as part of its pension contribution may be invested in private equity and venture capital in the State through an agreement with TEDCO or another entity, as specified under Chapter 459. While authority to use this additional funding expires after fiscal 2022, it has not been used. A total of \$14.0 million of the initial \$25.0 million authorized was drawn, but TEDCO has closed the fund to new investments.

State Revenues: Special fund revenues for the Maryland Equity Investment Fund in TEDCO increase by \$10.0 million in fiscal 2024, and nonbudgeted revenues to the SRPS trust fund decrease commensurately assuming the unappropriated general fund surplus as of June 30, 2022, is at least \$110.0 million. The actual increase in special fund revenues depends on the unappropriated general fund surplus as of June 30, 2022, which is currently projected to exceed \$110.0 million, but may change significantly before the end of the fiscal year.

TEDCO advises that investments will have a 10-year lifespan and returns on investment likely will not be seen until fiscal 2029. Thus, special fund revenues may further increase beginning in fiscal 2029 from TEDCO retaining 50% of investment returns. Likewise, revenues to the accumulation funds of the several pension systems may increase beginning

in fiscal 2029 from 50% of the investment returns of the Maryland Equity Investment Fund. Any additional funds to SRPS above the required employer contribution helps increase the funded status and financial sustainability of SRPS.

State Expenditures: Special fund expenditures for the Maryland Equity Investment Fund increase by a total of \$10.0 million from fiscal 2024 through 2028, assuming the fund receives the maximum distribution authorized under the bill. Approximately \$9.35 million is available for investments, while administrative expenses total approximately \$650,000, as discussed below.

TEDCO advises that existing staff can administer the Maryland Equity Investment Fund. However, TEDCO incurs \$150,000 of start-up costs in fiscal 2024 to make changes to internal processes, such as reporting, application processes, and investment policies, along with legal and information technology expenses. Additionally, TEDCO anticipates ongoing administrative costs of \$100,000 from fiscal 2024 through 2028 for expenses such as processing applications, quarterly reporting, marketing, and information systems. Thus, total administrative costs total approximately \$650,000 over five years from fiscal 2024 through 2028, consistent with funding for this purpose as authorized by the bill. Once TEDCO realizes returns on its investments, likely beginning in fiscal 2029, special fund expenditures increase further to make additional investments and for administrative expenses. TEDCO employees are not State employees.

The State Retirement Agency advises that the SRPS actuary does not factor into its assumptions for the system's employer contribution rate any "sweeper" funds that SRPS may receive from unappropriated general fund surpluses, so the reduction in SRPS trust fund revenues in fiscal 2024 does not affect State pension contributions.

Small Business Effect: Small businesses that are qualified businesses may benefit from receiving private equity and venture capital investments from the Maryland Equity Investment Fund.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 885 (Senators Griffith and Elfreth) - Budget and Taxation.

Information Source(s): Maryland Technology Development Corporation; Comptroller's Office; Maryland State Treasurer's Office; Department of Budget and Management; State Retirement Agency; Department of Legislative Services

Fiscal Note History:
js/ljm

First Reader - March 30, 2022

Third Reader - April 8, 2022

Revised - Amendment(s) - April 8, 2022

Analysis by: Heather N. MacDonagh

Direct Inquiries to:

(410) 946-5510

(301) 970-5510