

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 653 (Delegate Buckel)
 Ways and Means

Economic Development - Maryland Technology Infrastructure Pilot Program - Establishment

This bill establishes the Maryland Technology Infrastructure Pilot Program, Authority, and Fund (MTIF) in the Maryland Technology Development Corporation (TEDCO). The pilot program is focused on the Western Maryland innovation economy. The authority must provide advice to and consult with TEDCO in connection with the administration of the program. MTIF must be used to cover the program’s costs; subject to available funding and on the recommendation of the authority, TEDCO must award financial assistance from MTIF to public or private entities in the State for specified purposes. **The bill takes effect July 1, 2023, and terminates June 30, 2028.**

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$2.5 million annually from FY 2024 through 2028, under the assumptions discussed below. Special fund revenues and expenditures increase correspondingly. State revenues and expenditures may increase from awards under the program beginning in FY 2024 (not shown but discussed below). Funding for the program is discretionary and may vary from these amounts.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5
GF Expenditure	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5
SF Expenditure	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5
Net Effect	(\$2.5)	(\$2.5)	(\$2.5)	(\$2.5)	(\$2.5)

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

Local Effect: Local government and/or local community college revenues and expenditures may increase from awards under the program from FY 2024 through 2028.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Maryland Technology Infrastructure Pilot Program

The purpose of the program is to:

- establish a program in Western Maryland to support the innovation economy by incentivizing the development of advanced industry infrastructure and resources that build on the existing strengths of the region's economy;
- support the growth of and incentivize the attraction and retention of early-stage innovation-based business in Western Maryland through the creation of supporting infrastructure and resources;
- manage MTIF for financial assistance in projects to support the program; and
- evaluate the efficacy of the program for future expansion to other parts of the State.

Subject to available funding, and on the recommendation of the authority, TEDCO is required to award financial assistance from MTIF to public or private entities in the State, including institutions of higher education, to:

- support large-scale infrastructure or resource projects in Western Maryland to attract talent, foster collaboration, and enable concentration and growth of advanced industries;
- foster public-private collaborations to encourage development of shared infrastructure and resources; and
- support talent development initiatives that address critical skill shortage areas in industries critical to growth in Western Maryland.

MTIF may not contribute more than (1) one-third of the total cost of a project described above or (2) \$500,000 per project.

“Financial assistance” for purposes of the program means a grant, loan, credit enhancement, investment, or similar assistance. Priority for the award of any financial assistance must be given to those projects that are most likely to:

- attract significant investment in the State;
- result in significant company formation, expansion, or job creation; or
- result in meaningful economic and employment development in Western Maryland.

Maryland Technology Infrastructure Authority

The authority is established in TEDCO to provide advice to and consult with TEDCO in connection with the administration of the program. TEDCO must provide staff for the authority and may employ or contract with experts to assist with the administration and management of the program. The authority consists of specified individuals from the public and private sector in Western Maryland, subject to specified conditions. A member of the authority may not receive compensation but is entitled to reimbursement for travel expenses.

The authority is required to adopt regulations to establish a competitive application process and criteria and procedures for awarding financial assistance from MTIF to eligible recipients, subject to specified requirements.

Maryland Technology Infrastructure Fund

MTIF is established in TEDCO as a special, nonlapsing fund that is not subject to reversion, consisting of:

- appropriations as provided in the State budget;
- any interest earnings of the fund; and
- any other money from any other source accepted for the benefit of the program.

The executive director of TEDCO, or the executive director's designee, must administer MTIF in accordance with the bill and any other applicable law. The fund must be used to cover the costs of the program, including (1) any administrative costs and (2) any financial assistance that is awarded to eligible recipients. Any investment earnings of MTIF accrue to the fund.

Reporting and Oversight

By July 1, 2027, TEDCO must report to the General Assembly on implementation of the program and must make recommendations on the expansions of the program to a statewide program. The account and transactions of the fund are subject to audit by the Office of Legislative Audits (OLA) as provided under current law.

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. For further information on TEDCO, including a

general overview and recent program additions, see the **Appendix – Maryland Technology Development Corporation**.

State Fiscal Effect:

Program Operation and Oversight

The bill does not mandate funding or otherwise specify an intended funding level for the program. This estimate assumes that \$2.5 million is provided each year, which is enough to make five awards for close to the maximum amount of \$0.5 million while still paying for TEDCO's administrative expenses.

Based on its own estimate of a one-time grant of \$5.0 million (again, actual funding amounts are unknown due to a lack of a funding mandate or specification in the bill), TEDCO anticipates administrative expenses of approximately 10%, including staff and other administrative costs. TEDCO employees are not State employees.

Regardless of actual administrative expenses, this estimate assumes they are paid directly from MTIF as required by the bill and, therefore, are included in the annual MTIF appropriation. To the extent that discretionary funding provided to the program is more or less than this amount, programmatic activity changes.

Therefore, general fund expenditures increase by \$2.5 million annually from fiscal 2024 through 2028. Special fund revenues and expenditures for MTIF increase correspondingly as general funds are received and TEDCO provides financial assistance to eligible recipients under the bill and pays for its administrative expenses.

The program may provide several types of financial assistance. Some types, such as loans and investments, can reasonably be assumed to generate revenue for the program in future years. The additional revenue may then be used to provide additional financial assistance. Accordingly, beginning as early as fiscal 2025, special fund revenues and expenditures for MTIF further increase beyond annual general fund appropriations to the extent that revenue-generating financial assistance is provided by TEDCO under the program.

Costs associated with appointing and maintaining the authority as an advisory body are assumed to be minimal and absorbable within budgeted resources.

OLA can handle the bill's requirements with existing budgeted resources.

Program Recipients

Program funds may be awarded to public or private entities, including institutions of higher education, subject to a minimum 2:1 matching requirement per project. Accordingly,

special fund revenues (Executive Branch agencies) and/or higher education revenues increase to the extent that funds are received under the program from fiscal 2024 through 2028. State expenditures (all funds) and/or higher education expenditures increase as necessary to fulfill the matching requirement.

Local Fiscal Effect: As noted above, program funds may be awarded to public or private entities, subject to a minimum 2:1 matching requirement per project. Accordingly, local government and/or community college revenues increase to the extent that funds are received under the program from fiscal 2024 through 2028. Local government and/or community college expenditures increase as necessary to fulfill the matching requirement.

Small Business Effect: Small businesses benefit significantly from investments made under the program, both directly as recipients of funding and indirectly as beneficiaries from the infrastructure and resources supported by the program's investments.

Additional Comments: Chapter 207 of 2020 established the Task Force on the Economic Future of Western Maryland, staffed by Commerce, which was subsequently extended by Chapter 414 of 2021. The task force was required to study the current 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 in the task force's [final report](#).

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 709 and HB 892 of 2021.

Designated Cross File: None.

Information Source(s): Maryland Technology Development Corporation; University System of Maryland; Allegany, Garrett, and Washington counties; Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2023
km/lgc

Analysis by: Stephen M. Ross

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

Appendix – Maryland Technology Development Corporation

The Maryland Technology Development Corporation (TEDCO) is an independent entity established by the Maryland General Assembly in 1998 to enhance the transfer of technology from universities and federal laboratories to the private sector and foster the growth of companies in critical or high-growth sectors. TEDCO investments must meet statutory eligibility criteria that generally require a business to have and subsequently maintain a presence in the State. TEDCO programs typically assist companies based on a company's stage of development: from early stage and technology transfer to growth stage.

TEDCO's purview and funding has expanded in recent years as legacy programs were transferred from the Department of Commerce and new programs were established directly within TEDCO. The Maryland Venture Fund and a biotechnology grant program were transferred to TEDCO in fiscal 2016. The following programs have been established by legislation since 2021:

- **Pre-Seed Builder Fund:** The Pre-Seed Builder Fund supports 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. The Governor must include appropriations in the budget bill in the following amounts: \$5.0 million in fiscal 2023; \$6.2 million in fiscal 2024; and \$7.5 million annually beginning in fiscal 2025.
- **Inclusion Fund:** The Inclusion Fund provides 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.
- **Maryland Makerspace Initiative Program:** The program encourages the establishment and expansion of makerspaces throughout the State. The Governor must include an appropriation in the annual budget bill of at least \$1.0 million in fiscal 2024 through 2028 for the fund. The program terminates September 30, 2028.
- **Maryland Equity Investment Fund:** The Maryland Equity Investment Fund allows 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. For fiscal 2024, the Governor must include an appropriation in the budget bill to the 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 a corresponding decrease in the typical required appropriation.

- **Small Business Innovation Research and Technology Transfer Incentive (SBIR/STTR) Program:** The SBIR/STTR Program allows eligible small businesses to apply for State awards or investments of 25% of SBIR/STTR federal grants, limited to \$25,000 for Phase I funding or \$75,000 for Phase II funding. TEDCO may make up to 20 Phase I distributions and 10 Phase II distributions per fiscal year for a total of \$1.25 million.

For a more thorough discussion of TEDCO's structure and programs, including how its programs support companies in different stages of development, see "[Chapter 13. Economic Development and Business Regulation](#)" of *Volume II – Government Services in Maryland* of the 2022 Legislative Handbook Series.