

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 175

Finance

(The President)(By Request - Administration)

Ways and Means

Economic Development - Maryland Technology Infrastructure Program

This Administration bill establishes the Maryland Technology Infrastructure Program, Authority, and Fund (MTIF) in the Maryland Technology Development Corporation (TEDCO). The authority's purpose is to 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 capital and operating financial assistance from MTIF to public or private entities in the State for specified purposes.

Fiscal Summary

State Effect: General fund expenditures increase by \$16.0 million annually beginning in FY 2020 to provide funds to MTIF, under the assumptions discussed below. Special fund revenues and expenditures increase correspondingly, and may further increase from other funding sources. State revenues and expenditures may increase from awards under the program beginning in FY 2020 (not shown, discussed below). As introduced, the FY 2020 budget included \$16.0 million for the program; however, the final FY 2020 budget as passed by the General Assembly does not include funding for the program. Thus, any funding in FY 2020 or later will be at the discretion of the Governor.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0
GF Expenditure	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0
SF Expenditure	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0
Net Effect	(\$16.0)	(\$16.0)	(\$16.0)	(\$16.0)	(\$16.0)

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 beginning in FY 2020, as discussed below.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary:

Maryland Technology Infrastructure Program

The purpose of the program is to:

- facilitate strategic planning and guidance by convening leaders from industry and anchor research institutions, as well as other key innovation stakeholders, to identify policies and investments needed to advance Maryland's innovation around targeted growth opportunities and place-making efforts;
- manage MTIF for investments in projects; and
- coordinate economic development service delivery to ensure high-quality customer service.

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

- support large-scale place-making projects that establish a geographic district to attract talent, foster collaboration, and enable concentration and growth of life sciences and cyber-related industries;
- foster public-private collaborations between private industry and institutions of higher education in the State, and the development of research and commercialization centers;
- attract new lead venture capital firms and major corporate partners to fund start-up and emerging companies in Maryland; and
- support talent development initiatives that address critical skill shortage areas in science, technology, engineering, and mathematics fields to meet the workforce needs of the life sciences and cyber-related industries.

"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 or job creation;
- leverage significant research funding from federal or private-sector sources; or
- establish the State as a key location for life sciences and cyber-related industries.

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, subject to specified conditions. The Governor is required to appoint a chair from among the members. A member of the authority may not receive compensation but is entitled to reimbursement for travel expenses.

The authority is authorized to establish an independent review board of business and academic experts with knowledge of advanced industries to:

- evaluate whether an applicant for funding is likely to achieve the goals of the project for which funding is sought; and
- make recommendations to the authority, based on the evaluation, for the award and disbursement of financial assistance from MTIF.

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.

Maryland Technology Infrastructure Fund

MTIF is established in TEDCO. MTIF is a special, nonlapsing fund that is not subject to reversion. The fund consists 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.

The Treasurer is required to invest the money of the fund in the same manner as other State money may be invested. Any investment earnings of MTIF must be credited to the fund.

Reporting and Oversight

By January 1 each year, TEDCO and the authority must report to the Governor and the General Assembly on the status of MTIF, including detailed descriptions of the financial assistance awarded. The Legislative Auditor is required to audit the accounts and transactions of the fund through the audit process under current law.

Current Law/Background: 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 (MVF) and the biotechnology grant program from the Department of Commerce. Except for MVF, which is a special fund, State support for TEDCO's programs is typically in the form of general funds.

State Fiscal Effect: The bill does not mandate funding for the program. As introduced, the Governor's fiscal 2020 budget included \$16.0 million for the program; however, the final fiscal 2020 budget as passed by the General Assembly does not include funding for the program. Thus, any funding in fiscal 2020 or later will be at the discretion of the Governor. Based on the Governor's original intent to fund the program at \$16.0 million in fiscal 2020, this analysis assumes that amount is provided each year. To the extent that less or no funding is provided, the State fiscal effect is less.

Program Operation

Under the assumptions discussed above, general fund expenditures increase by \$16.0 million annually beginning in fiscal 2020 to capitalize and then maintain funding for MTIF. Special fund revenues increase by \$16.0 million annually from the general fund support, and may further increase from other funding sources. Special fund expenditures for MTIF increase correspondingly beginning in fiscal 2020 as TEDCO uses the available funds to provide financial assistance to eligible recipients under the bill. TEDCO advises it intends to provide \$0.5 million to \$5.0 million per project.

Total costs for TEDCO to support MTIF and the authority, including three new positions, are approximately \$550,000 to \$750,000 annually. This estimate assumes that administrative costs are paid directly from MTIF as required by the bill and, therefore, are included in the annual MTIF appropriation.

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 financial assistance. Accordingly, beginning as early as fiscal 2021, special fund revenues and expenditures for MTIF further increase 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 existing budgeted resources.

Program Recipients

Program funds may be awarded to public or private entities in the State, including institutions of higher education. Although not required by the bill, TEDCO advises that it intends to establish a matching requirement for funds provided under the program. Accordingly, special fund revenues (executive agencies) and/or higher education revenues increase to the extent that funds are received under the program. If a match is required, State expenditures (all funds) and/or higher education expenditures increase as necessary.

Local Fiscal Effect: As noted above, program funds may be awarded to public or private entities in the State, and TEDCO advises that it intends to establish a matching requirement for funds provided under the program. Accordingly, local government and/or community college revenues increase to the extent that funds are received under the program. If a match is required, local government and/or community college expenditures increase as necessary.

Information

Prior Introductions: None.

Cross File: HB 235 (The Speaker)(By Request - Administration) - Ways and Means.

Information Source(s): Maryland Technology Development Corporation; Department of Commerce; Maryland Higher Education Commission; Department of Budget and Management; Department of Labor, Licensing, and Regulation; State Ethics Commission; University System of Maryland; Morgan State University; St. Mary's College of Maryland;

Baltimore City Community College; Department of Legislative Services - Office of Legislative Audits; Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2019

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: **Economic Development - Maryland Technology Infrastructure Program**

BILL NUMBER: SB 175/HB235

PREPARED BY: Mathew Palmer

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

- WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS
- OR
- _____ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Existing small business will be positively affected by this legislation and it is expected that the legislation will encourage new small business formation opportunities.

Additional Comments:

Small Tech Businesses will positively gain from having access to advanced commercialization centers including state of art wet labs, cyber ranges and incubators.

Small Tech Businesses will positively gain from tech ecosystem enhancements that will attract much needed access to more early stage risk capital and tech leadership talent