

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 457

(Senator A. Washington)

Finance

Ways and Means

**Maryland Technology Development Corporation - Equitech Growth Fund -
Alterations**

This bill alters the permissible uses of the Equitech Growth Fund (EGF) in the Maryland Technology Development Corporation (TEDCO) and a related mandated appropriation to allow for the payment of costs to administer the fund. More specifically, EGF may be used only to (1) make awards from the fund in accordance with existing program requirements and (2) pay the costs of administering the fund. The bill likewise alters the existing mandated appropriation so that the annual \$5.0 million appropriation is made *to EGF*, and not *for awards*. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: General fund expenditures for TEDCO decrease by \$0.6 million annually beginning in FY 2025. Special fund revenues and expenditures for TEDCO decrease correspondingly. Special fund revenues and expenditures for TEDCO may further decrease in future years from foregone loan and investment revenues. Assumptions for this estimate are discussed below. State revenues and expenditures may decrease beginning in FY 2025 due to fewer program awards (not shown but discussed below). **This bill modifies eligible uses of an existing mandated appropriation beginning in FY 2025.**

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)
GF Expenditure	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)
SF Expenditure	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)
Net Effect	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6

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

Local Effect: Local revenues (and local expenditures to provide matching funds) may decrease beginning in FY 2025, as discussed below.

Small Business Effect: Potential meaningful, as discussed below.

Analysis

Current Law: Chapters 461 and 462 of 2023 established the Equitech Growth Commission and Fund in TEDCO to support economic competitiveness and inclusive growth of emerging and advanced industries in the State through the creation of supporting infrastructure assets, resources, and a diverse workforce that builds the strengths of the State's economy. TEDCO must administer the fund. The fund consists of money appropriated in the State budget, interest earnings, and any other money from any other source accepted for the benefit of the fund. EGF must leverage investment from the private sector, funding from federal sources, and other sources of funding.

TEDCO must award grants, investments, loans, or other financial assistance from EGF to public, nonprofit, or private entities in the State, including institutions of higher education and public-private partnerships. Awards must target workforce development and infrastructure that will attract and retain businesses in the State. Awards must be consistent with the 10-year goals in a strategic plan developed by the Equitech Growth Commission.

The Acts do not specify whether EGF can, or cannot, be used for administrative expenses. From fiscal 2025 through 2033, the Governor must include in the annual budget bill an appropriation of \$5.0 million *for awards* from EGF. While the mandate is temporary, the program is permanent.

For further information on TEDCO, including a general overview and recent program additions, see the **Appendix – Maryland Technology Development Corporation**.

State Fiscal Effect: As noted above, Chapters 461 and 462 do not specify whether EGF can, or cannot, be used for administrative expenses. The fiscal and policy note for the legislation assumed that EGF could not be used for such purposes, and instead assumed additional funding would be provided (\$0.6 million annually beginning in fiscal 2025) and that it would flow through EGF as special fund revenues and expenditures. This estimate maintains those assumptions for consistency.

Accordingly, general fund expenditures for TEDCO decrease by \$0.6 million annually beginning in fiscal 2025. Special fund revenues and expenditures for TEDCO decrease correspondingly. The general fund reduction is already reflected in the fiscal 2025 budget as introduced, which does not include additional general funds for EGF administration. Additionally, since some program awards may generate revenue for the program in future years, decreased funding for awards also decreases special fund revenues and expenditures associated with those future revenues.

Both of the above effects mean that fewer funds are available for awards to eligible recipients. Therefore, special fund revenues (Executive Branch agencies) and/or higher

education revenues decrease beginning in fiscal 2025 to the extent that funds are no longer received from EGF. State expenditures (all funds) and/or higher education expenditures likewise decrease from any foregone matching requirements. The effect on overall funding for State entities, and on any particular State entity, is unknown.

Local/Small Business Effect: Local governments and small businesses are affected in the same manner as State entities described above by the reduction in available award funding beginning in fiscal 2025. However, the effect on overall funding for local governments and small businesses, or the effect on any particular local government or small business, is unknown.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 410 (Delegate Atterbeary) - Ways and Means.

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

Fiscal Note History: First Reader - January 30, 2024
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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 fiscal 2024 budget includes \$54.7 million in general funds for TEDCO programs. The following programs have been established by legislation since 2021, with mandated appropriations also noted.

- **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** – 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** – 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** – 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 was required to 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. The maximum amount was appropriated.

- **Small Business Innovation Research and Technology Transfer Incentive (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.
- **Equitech Growth Fund and Commission** – supports economic competitiveness and inclusive growth of emerging and advanced industries in the State through the creation of supporting infrastructure assets, resources, and a diverse workforce that builds the strengths of the State’s economy. TEDCO must award grants, investments, loans, or other financial assistance to public, nonprofit, or private entities in the State. Awards must target workforce development and infrastructure. From fiscal 2025 through 2033, the Governor must include in the annual budget bill an appropriation of \$5.0 million for awards from the fund.
- **Cyber Maryland Program and Fund** – creates a talent pipeline in cybersecurity, serves as a hub for State workforce development programs in cybersecurity, and generally coordinates cybersecurity and research and innovation in the State, among other things. Beginning in fiscal 2025, the Governor may include an appropriation in the annual budget bill of \$250,000 for the fund; however, the Governor must include an appropriation that is sufficient to hire staff for the program.
- **Human-relevant Research Program and Fund** – promotes State-funded research intended to develop human-relevant alternatives to using nonhuman animals in testing and research through grants and loans. TEDCO must establish a grant and loan program, as specified, which includes contracting with an independent scientific review board to review research proposals and make recommendations to TEDCO. The program is funded by fees on entities conducting research on nonhuman animals.