

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

Senate Bill 387 (Senator Hogan, *et al.*)

Finance and Budget and Taxation

Economic Matters

**Maryland Technology Development Corporation - Maryland Technology
Incubator Program**

This bill creates the Maryland Technology Incubator Program to promote entrepreneurship and job creation in technology industries. The bill is effective June 1, 2001.

Fiscal Summary

State Effect: The program could be implemented within existing budgeted resources. Expenditures could increase in the out-years, however, to fully implement the program. Revenues may also increase through program fees, interest payments, and other proceeds paid by program applicants.

Local Effect: Potential significant increase in revenue for local governments that receive financial assistance under this program. Potential increase in expenditures to the extent that local governments who seek to participate in the program must provide matching funds or an in-kind contribution.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The legislation establishes the Maryland Technology Incubator Program to be administered by the Maryland Technology Development Corporation (TEDCO). The TEDCO Board of Directors is required to award grants to promote entrepreneurship and the creation of jobs in technology-related industries by establishing and operating

incubators throughout the State. Financial assistance includes grants, loans, and credit enhancements, or other forms of aid.

The bill requires the board to establish criteria and requirements for the awarding of financial assistance which: (1) support the development and use of best practices in the incubation process; (2) provide strategic planning, needs assessment, and feasibility studies; and (3) assist in the acquisition and construction of new or expanded space or the renovation of existing space for an incubator. The bill further specifies factors that the board must consider in determining whether to award financial assistance.

Eligible recipients are: (1) local governments; (2) agencies or instrumentalities designated by local governments, e.g., nonprofit corporations, public or private colleges or universities, the Maryland Economic Development Corporation; or (3) nonprofit entities acting as incubators in the State. A recipient must provide matching funds or an in-kind contribution that equals the amount of the financial assistance unless the board waives this requirement in whole or part for good cause. The board may not award more than \$1 million in any fiscal year for incubator projects within a single county or within Baltimore City unless otherwise approved by a two-thirds vote of the membership of the board.

The bill directs TEDCO to report to the General Assembly, within 90 days of the end of each fiscal year, its activities during the previous fiscal year and anticipated activities for the next fiscal year.

Current Law: None applicable.

Background: Business incubation provides start-up firms with office space, shared business services, and shared resources such as conference rooms and Internet access. Generally, businesses housed in incubators are provided with flexible and often below-market rate leases as well as technical assistance with the goal that the businesses will graduate from the incubator. The average stay in an incubator is two to three years.

According to the National Business Incubation Association (NBIA), the number of incubators in the United States and Canada has grown rapidly, increasing from 12 programs in 1980 to approximately 900 in 2000. About 40% of these incubator programs serve technology companies; the remainder serve mixed use, light industrial, or service markets. NBIA also reports that 87% of incubator graduates remain in business, while the typical new business failure rate is about 50%.

In 1998, the General Assembly created TEDCO to help commercialize scientific research and development products from State colleges and universities to the private sector.

TEDCO's authority was later expanded to make grants to or provide equity investments for technology-based businesses. In December 2000, TEDCO made six matching grants to high-tech incubators and will mentor the recipients and provide technical and financial assistance.

State Fiscal Effect: The fiscal 2002 allowance provides \$5 million in general fund PAYGO to TEDCO for investment-related activities that include this program. TEDCO advises that while it currently administers incubator projects, there is no official incubator program or structure for financial assistance. It anticipates using some of this \$5 million for three to four grants, as well as feasibility studies.

The Department of Legislative Services advises that the 2002 budget allowance provides for only a limited number of loans or grants and that the program is likely to require additional State expenditures in the future, particularly if local government demand for assistance grows.

Revenues may also increase to the extent that recipients of financial assistance pay associated fees (e.g., interest payments).

Small Business Effect: To the extent that local governments provide incubator services to small technology firms, the bill could have a meaningful impact. Incubator programs primarily serve small businesses and provide technical and material assistance that may not otherwise be available or may not be affordable. Small businesses that participate in these programs are also more likely to stay in business longer. DLS notes that the number of firms that would apply for incubator services cannot be reliably quantified at this time.

Additional Information

Prior Introductions: None.

Cross File: HB 427 (Delegate Barve) – Economic Matters.

Information Source(s): Department of Business and Economic Development, National Business Incubation Association, Department of Legislative Services

Fiscal Note History: First Reader – February 21, 2001
mld/jr Revised – Senate Third Reader – March 26, 2001
Revised – Enrolled Bill – April 25, 2001

Analysis by: Ann Marie Maloney

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510