

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

Senate Bill 680

(Senator Kittleman)

Finance

Maryland Small Business Innovation Research Matching Funds Program

This bill establishes the Maryland Small Business Innovation Research Matching Funds Program to be administered by the Technology Development Corporation (TEDCO). The program is to provide matching grant funds to eligible Maryland businesses that have received a federal Small Business Innovation Research Phase I award and have applied for a Phase II grant and are in the negotiation or fast-track process.

Fiscal Summary

State Effect: General fund expenditures could increase by \$5.7 million in FY 2009, and by at least \$7.6 million annually beginning in FY 2010, for matching grants and to hire one program administrator. This estimate reflects the mid-point in a range of estimates as discussed below, and is not a mandated appropriation.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	5,670,000	7,561,100	7,564,200	7,567,500	7,570,900
Net Effect	(\$5,670,000)	(\$7,561,100)	(\$7,564,200)	(\$7,567,500)	(\$7,570,900)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The purpose of the program is to increase the amount of federal research revenue received by State small businesses. To this end, the program is to provide

matching grant funds to bridge the gap between federal Small Business Innovation Research (SBIR) Phase I and Phase II awards.

To be eligible for a matching grant, a business must submit an application under oath and a nonrefundable application fee. The applicant must have its principal place of business in Maryland, agree to operate in the State for at least one year after receipt of a grant, and conduct at least 51% of research funded by the grant in Maryland. In addition, the application must include proof that the business has: • received a SBIR Phase I award no more than two years prior to applying for a matching grant; • submitted a Phase II application; and • been invited to negotiate for Phase II funding or submitted a fast-track application for Phase II funding.

The funds for this program are to be derived from money provided by the State, federal government, or a nongovernmental entity. A business may only receive one matching grant, capped at \$50,000, for each separate SBIR proposal, and may only receive up to five grants total.

TEDCO is required to adopt regulations for the implementation of the program after studying the laws and regulations of other states and soliciting advice and input from the U.S. Small Business Administration. In addition, TEDCO is required to report to the Governor and the General Assembly by January 1 of each year as to the administration of the program and the advancement of this bill's purposes. The report must also identify each grantee, the amount of each grant, and a description of any SBIR Phase II activity in the State.

Current Law/Background: The U.S. Small Business Administration Office of Technology administers the SBIR Program. Phase I awards are those made to evaluate the feasibility and merit of a scientific or technical idea. Phase II awards are granted to expand on the results of, and further pursue the development of, a Phase I concept. Approximately 200 Maryland companies currently receive Phase I awards annually. However, many companies dependent on research grant funding face considerable financial difficulty in the interim between the receipt of Phase I and Phase II awards. To assist these businesses, at least 11 states have begun providing matching grant funds including Delaware and New Jersey.

TEDCO, an independent entity, was 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 recently received a demonstration grant from the federal Small Business Administration to assist minority- and women-owned businesses in competing for SBIR awards. TEDCO also advises that many companies have indicated that additional financial assistance to help bridge the gap between Phase I and Phase II would be beneficial.

One of TEDCO's four primary business investment programs is the Maryland Technology Transfer Fund. MTTTF awards seed funding to early stage companies that partner with universities or federal laboratories in Maryland. An MTTTF awardee company must have a commercialization strategy to qualify, and awards are up to \$75,000 in nonequity investments per company. The companies serve as a "farm team" for the Challenge program, a DBED program that targets businesses at a later stage of development. MTTTF awardees also often go on to participate in the Maryland Industrial Partnerships Program at the University of Maryland, College Park. The fiscal 2009 allowance includes \$1.7 million for this program.

DBED also administers five business assistance programs, the largest of which is the Maryland Economic Development Assistance Authority and Fund (MEDAAF). MEDAAF provides below-market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses, particularly in growth industries and priority funding areas. Funds may be used for property acquisition, construction, or renovation of buildings, including tenant improvements and capital equipment. MEDAAF is projected to end fiscal 2008 with a fund balance of \$40.8 million. The fiscal 2009 allowance includes additional special fund revenues of \$10.1 million and special fund expenditures of \$40.1 million, leaving \$10.0 million at the close of fiscal 2009.

The Maryland Enterprise Investment Fund is another of DBED's five business assistance programs. This program provides capital through equity purchases for start-up companies that are developing innovative technologies. Investments are limited to 25% of the company's total equity and require a three-to-one outside investor co-match. Individual investments, except those made in venture capital limited liability companies, are limited to \$500,000 and may not exceed 15 years in duration. The Maryland Enterprise Investment/Challenge Program and Fund is projected to have an ending balance of \$2,022,000 for fiscal 2009.

State Fiscal Effect: Legislative Services advises that because it is unclear how large the average matching grant award would be, a single estimate cannot be made. However, using \$25,000 as the low-end estimate of the average grant size, general fund expenditures for the fund could increase by \$1 to \$5 million annually assuming a viable program would provide grants to 40 businesses for the estimated 200 businesses that could receive an award annually. Using \$50,000, the maximum grant allowable under the bill, as the high-end estimate, general fund expenditures for the fund could increase by \$10 million per year if funds are provided in the State budget. The mid-point estimate is therefore \$7.5 million annually and \$5.6 million in fiscal 2009 reflecting the October 1 effective date.

The bill also allows for a maximum of five grants per business. Legislative Services advises that it is unclear whether or not this is an annual or program restriction. Therefore, it is possible that if each of the 200 companies received five grants of \$50,000 annually, general fund expenditures could increase by \$50 million annually.

It should be noted that this bill does not appropriate any money for the Small Business Innovation Research Matching Fund. Each of the above estimates is contingent on funds being appropriated to the fund. This estimate assumes general funds would be appropriated, although special funds (e.g., from DBED) could also be provided by the State.

In addition, TEDCO advises that an additional program manager would be necessary to administer the fund at a cost of \$45,004 in fiscal 2009, and by at least \$61,131 annually beginning in fiscal 2010. Future year expenditures reflect: • a full salary with fringe benefits; • 4.4% annual increases and 3% employee turnover; and • 2% annual increases in ongoing operating expenses.

	<u>FY 2009</u>	<u>FY 2010</u>
Salary and Fringe Benefits	\$44,846	\$60,917
Operating Expenses	158	214
Total State Expenditures	\$45,004	\$61,131

Small Business Effect: As noted, the SBIR program is dedicated to providing critical research funding for small technology companies. Thus, this program would have a meaningful impact for qualifying small businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Technology Development Corporation, Department of Legislative Services

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ncs/rhh

Analysis by: Evan M. Isaacson

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