

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 603

(Senator DeGrange, *et al.*)

Finance

Economic Matters

**Economic Development - Maryland Technology Development Corporation -
Cybersecurity Investment Fund**

This bill establishes the Cybersecurity Investment Fund (CIF) as a special, nonlapsing fund to (1) provide seed and early-stage funding for emerging technology companies located in the State focused on cybersecurity and cybersecurity technology product development; (2) maximize investments made by the Maryland Technology Development Corporation (TEDCO) by supporting funded emerging technology companies to enable corporate growth and to obtain third-party downstream funding for commercialization; and (3) leverage TEDCO investments in early-stage cybersecurity companies by taking advantage of economic development opportunities throughout the State. The fund is administered by TEDCO. TEDCO must include information related to its administration of the fund in its annual report to the Governor and the General Assembly.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund expenditures increase by at least \$1.0 million annually beginning in FY 2015 to capitalize and then maintain funding for CIF, under the assumptions discussed below. Accordingly, special fund revenues and expenditures for CIF increase by at least \$1.0 million annually beginning in FY 2015 as TEDCO provides seed and early-stage funding to companies under the bill. The FY 2015 budget restricts \$1.0 million in general funds to initially capitalize CIF, contingent on enactment of this bill or its cross file and the Governor exercising the authority to transfer the funds to TEDCO.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
SF Revenue	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
GF Expenditure	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
SF Expenditure	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
Net Effect	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)

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

Local Effect: None.

Small Business Effect: Meaningful for small businesses eligible to receive seed and early-stage funding under the bill.

Analysis

Bill Summary: The fund consists of (1) money appropriated in the State budget to the fund; (2) money made available to the fund through federal programs or private contributions; (3) repayment of capital or principal or payment of interest on any debt or equity investments from the fund; (4) the fund's investment earnings; and (5) any other money from any other source accepted by TEDCO for the fund. The fund's investment earnings must be retained and may not be transferred to the general fund. TEDCO may use the fund to carry out the purposes of the fund and to pay the costs necessary to implement the bill and to administer the fund.

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 administers two other seed/early-stage investment funds, the Technology Commercialization Fund (TCF) and the Maryland Innovation Initiative (MII). TCF makes investments in entrepreneurs throughout the State developing technologies for start-up companies, while MII is aimed at increasing the rate of commercializing technologies developed at Maryland's research universities. The fiscal 2015 budget includes \$662,000 for TCF and \$5.0 million for MII.

Cybersecurity Investment Programs

The Department of Business and Economic Development (DBED) administers a number of programs that support investment in cybersecurity. Chapter 390 of 2013 established the Cybersecurity Investment Incentive Tax Credit, which can be applied against the State income tax for qualified investments in Maryland cybersecurity companies. The refundable credit applies to tax year 2014 through 2018 and is equal to 33% of the qualified investment, not to exceed \$250,000, to be claimed by the Maryland

cybersecurity companies. The amount of credits that DBED may award each year cannot exceed the amount of money appropriated to a reserve fund established by the Act. The fiscal 2014 budget for the tax credit was \$3.0 million, and the fiscal 2015 budget includes \$4.0 million for the tax credit.

The Enterprise Investment Fund (EIF) is a State-sponsored venture capital fund through which DBED makes equity and convertible debt investments in early-stage, high-technology firms that are seeking outside venture capital for their first influx of meaningful investment dollars. DBED advises that \$5.0 million from InvestMaryland Program proceeds was dedicated in October 2013 for equity investment in early-stage cybersecurity product companies. The fiscal 2015 budget includes \$6.9 million from InvestMaryland proceeds for EIF to make direct investments in firms.

The Challenge Investment Program (CIP) is a seed grant and investment program designed to invest in high-technology start-up firms. CIP requires that a program recipient retain its principal place of business in the State for at least three years. In addition to three other grants, a \$100,000 grant will be awarded to a cybersecurity company in spring 2014 as part of the program.

Commission on Maryland Cybersecurity Innovation and Excellence

Chapters 250 and 251 of 2011 established the Commission on Maryland Cybersecurity Innovation and Excellence to (1) review current federal and State laws, standards, and policies for inconsistencies and preemption issues; (2) provide recommendations regarding strategic plans to promote cybersecurity innovation and recover from attacks on cybersecurity; and (3) recommend methods of promoting innovation through public-private partnerships, the education system, research and development, and selection of a State agency suitable to implement a pilot program. The commission submitted an interim report in December 2013 and is required to submit its final findings and recommendations to the Governor and the General Assembly by September 1, 2014.

InvestMaryland Program

Chapter 409 of 2011 was enacted to create the InvestMaryland Program. The legislation created a State-supported venture capital program and also increased funding for EIF and other DBED programs. These programs were funded through an auction of a tax credit against the insurance premium tax for insurance companies. Proceeds totaling \$84.0 million were collected under the program, a portion of which is allocated each year in the State budget.

State Fiscal Effect: General fund expenditures increase by at least \$1.0 million annually beginning in fiscal 2015 to capitalize and then maintain funding for CIF. The fiscal 2015 budget restricts \$1.0 million of DBED's general fund appropriation to initially capitalize

CIF, contingent on enactment of this bill or its cross file; however, the Governor must still approve the transfer of funds from DBED to TEDCO. This estimate assumes the funds are transferred in fiscal 2015 and CIF continues to receive the same level of funding annually thereafter to maintain the fund. TEDCO indicates that a funding level of at least \$1.0 million (and up to \$2.0 million) annually is needed for CIF to successfully meet its purpose.

Accordingly, special fund revenues and expenditures for CIF increase by at least \$1.0 million annually beginning in fiscal 2015 as TEDCO provides seed and early-stage funding to companies under the bill.

Total costs for TEDCO to manage CIF, including one new position, are approximately \$125,000 annually. TEDCO indicates that management of CIF includes creating an online proposal template, requesting proposals, reviewing proposals (including coordinating due diligence from reviewers outside of TEDCO when necessary), scoring proposals, meeting with applicants and providing feedback on their proposals, executing an investment vehicle for investments from CIF, managing those investments, and reporting the investment outcomes. As administrative costs are an authorized use of the special fund, this estimate assumes that these costs are paid directly from CIF and are, therefore, included in the \$1.0 million annual CIF expenditure.

Additional Information

Prior Introductions: None.

Cross File: HB 740 (Delegate Beidle, *et al.*) - Economic Matters.

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

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