

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 468

(Chair, Economic Matters Committee)(By Request -
Departmental - Business and Economic Development)

Economic Matters

Maryland Economic Development Assistance Fund - Training and Technology
Projects

This departmental bill alters the permissible uses of financial assistance from the Maryland Economic Development Assistance Fund (MEDAF) to include costs incurred to promote the training of full-time permanent employees and for specified small or early-stage technology projects.

Fiscal Summary

State Effect: None. Altering the permissible uses of financial assistance for MEDAF has no impact on State finances. However, to the extent funds are allocated for training or technology projects, financial assistance for currently eligible projects may decrease. The Governor's proposed FY 2015 budget includes \$8.9 million in general funds and \$19.1 million in special funds for the program.

Local Effect: None.

Small Business Effect: The Department of Business and Economic Development (DBED) has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary/Current Law:

The Bill: "Technology project" means a small or early-stage business engaged in commercial product development in emerging technology sectors, including

cybersecurity, space, unmanned aerial vehicles, data analytics, and renewable energy. “Training project” means a project that promotes the training of full-time permanent employees.

Use of Program Funds

Current Law: Generally, financial assistance from MEDAF may be used only to finance costs incurred for (1) construction or acquisition of a building or real property, and associated development and carrying costs; (2) construction, acquisition, or installation of equipment, furnishings, fixtures, leasehold improvements, site improvements, or infrastructure improvements, and associated development and carrying costs; or (3) working capital for significant strategic economic development opportunities, arts and entertainment enterprises, or arts and entertainment projects. Other specified uses exist for the redevelopment of brownfields sites, child care facilities, or for local government economic development planning.

The Bill: Financial assistance from MEDAF may be used to finance costs incurred for training projects and technology projects.

Level of Financial Assistance

Current Law: Generally, financial assistance from MEDAF may not exceed 70% of the total costs of the project being financed. Financial assistance may constitute 100% of the total costs of the project being financed for an arts and entertainment enterprise or project or a qualified distressed county project. Financial assistance from the fund is generally limited to 50% of eligible costs of capital improvements to a child care facility. Similarly, financial assistance is also limited to 50% of preparation costs of a strategy or plan for economic development of a county or municipality, up to \$50,000 over a three-year period.

The Bill: Financial assistance may constitute 100% of the total costs of the project being financed if the financial assistance is for a technology project or a training project.

Terms of Financial Assistance

Current Law: Generally, the term of a loan from MEDAF must be (1) for working capital, 3 years or less; (2) for financing equipment, furnishings, or fixtures, the lesser of 15 years or the useful life of the asset, as determined by DBED; (3) for financing the construction or acquisition of buildings and real property, 25 years or less; and (4) for financing the redevelopment of a qualified brownfields site or a qualified distressed county project, a term approved by DBED or the Maryland Economic Development Assistance Authority. For a specialized economic development opportunity, a loan from

the fund must be at a below-market interest rate, as determined by DBED. Financial assistance to a specialized economic development opportunity may be in the form of a grant, loan, or investment.

The Bill: The term of the financing provided for a technology or training project may be approved by DBED or the authority. A technology or training project is considered a specialized economic development opportunity and is, therefore, required to receive below-market interest rates on loans and may also receive grants and investments as specified in current law.

Background: The Maryland Economic Development Assistance Authority and Fund (MEDAAF) Program was established by the General Assembly under Chapter 301 of 1999 as a revolving loan fund. The fund provides below-market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses. Businesses, in particular those in growth industries that are locating or expanding in priority funding areas, are targeted. Funds may be used for property acquisition, construction, renovation of buildings including tenant improvements, and capital equipment.

MEDAAF is the primary financing program for DBED. Other than for significant strategic economic development opportunities, arts and entertainment enterprises, or arts and entertainment districts (for which MEDAF can fund working capital), the program can only assist projects with eligible “hard cost” expenditures.

The fiscal 2014 budget includes \$773,200 in general funds and \$13.1 million in special funds for the program. In addition, there are two fiscal 2014 deficiency appropriations, a \$500,000 general fund decrease, and a \$5.0 million special fund increase, for a net increase of \$4.5 million in fiscal 2014. The Governor’s proposed fiscal 2015 budget includes \$8.9 million in general funds and \$19.1 million in special funds for the program, a total increase of almost \$9.7 million over fiscal 2014 if the deficiency appropriations are approved.

Technology and Training Projects

DBED advises that technology companies generally do not have sizeable fixed assets but do need working capital to fund intellectual property and operating expenses. The bill allows DBED to assist companies where intellectual property and talent drives growth more than capital expenditures. Further, the bill fills a purported gap between equity investment and traditional bank financing for small technology businesses due to the higher credit risk involved. Assisting these businesses with working capital on flexible terms allows them to grow and increase their chances of survival and growth in the industry.

DBED advises that the State's highly skilled and educated workforce is a leading selling point for Maryland as a business location and that additional training assistance through MEDAF will help preserve and maintain the State's workforce advantage.

Maryland Technology Development Corporation

The Maryland Technology Development Corporation (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. Programs managed by TEDCO include the Incubator Business Assistance Fund, the Technology Commercialization fund, and the Rural Business Innovation Initiative. TEDCO no longer offers a working capital assistance program.

State Fiscal Effect: Altering the permissible uses of financial assistance for MEDAF has no impact on State finances. However, to the extent funds are allocated for training or technology projects, financial assistance for currently eligible projects may decrease. DBED advises that it intends to allocate \$1.5 million to \$2.0 million to the projects authorized under the bill. It anticipates issuing working capital loans for technology projects and structuring financial assistance for training projects as grants.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 3, 2014
ncs/rhh

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Maryland Economic Development Assistance Fund – Training and Technology Projects

BILL NUMBER: HB 468

PREPARED BY: Department of Business and Economic Development

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

As DBED's primary financing program to administer five strategic capabilities relevant to economic development opportunities, MEDAAF has a key role in providing strategic assistance to businesses, especially small firms.

This bill proposes further expansion of MEDAAF's capabilities to assist small and early stage businesses in emerging technology sectors engaged in commercial product development with access to capital for technology development and employee growth, or to fund training projects, MEDAAF will be able to fill a gap in providing assistance.

The rationale for expanding program's capabilities follows important recent developments in the Maryland economy where there has been an uptick in increase of technology-startups either as a result of product and technology repositioning or that the state economy is experiencing an upward trend in knowledge commercialization projects. Because of these trends and the fact that there is a gap in equity investments and traditional bank financing in the markets at the moment, the proposal attempts to address this shortage by providing assistance to small technology firms so that they can survive the critical period and grow.

In addition, the proposal also compliments the EARN program by investing funds in key strategic areas in education and workforce training to address the growing needs for

highly skilled workers in the emerging knowledge-based and technology sectors. While Maryland has one of the most highly-skilled workforces in the nation, it is important to focus resources in further developing this asset, address shortcomings, and maintaining the competitive edge in this area which the state has developed over many years.

As such, the proposal is expected to have a major positive impact on small and early stage technology businesses and other firms that are engaged in commercialization of ideas and knowledge, which is crucial to innovation, job creation, and economic expansion.