

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 347 (Delegate Rosenberg)
Economic Matters and Appropriations

Cybersecurity Investment Fund and Enterprise Fund - Higher Education Loan
Repayment - Expanded Use

This bill allows a company to use funding that it receives from the Cybersecurity Investment Fund (CIF) or the Enterprise Fund to assist in the repayment of a higher education loan owed by an employee of the company that meets the income limit for the Janet L. Hoffman Loan Assistance Repayment Program (LARP). If a company uses funding for this purpose, it must provide at least a 50% match from its own funds. “Higher education loan” means any loan for undergraduate or graduate study that is obtained for tuition, educational expenses, or living expenses from a college or university, government, commercial source, or specified nonprofit entities.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: To the extent that funding provided by the Maryland Technology Development Corporation (TEDCO) through CIF and/or the Enterprise Fund is used for education loan assistance, there is less funding available for other permissible uses. Both funds retain investment earnings associated with their activities, which can then be used to provide additional funding. Therefore, if funding provided by TEDCO is used for education loan assistance instead of for activities that generate a financial return, special fund revenues and expenditures decrease beginning as early as FY 2019. TEDCO indicates that this is more likely with the Enterprise Fund than CIF. TEDCO can handle the bill’s requirements with existing staff.

Local Effect: None.

Small Business Effect: Meaningful. Eligible small businesses benefit from an additional option for financial assistance from CIF and/or the Enterprise Fund, subject to the

minimum 50% matching requirement. However, these businesses may experience slower growth over time due to a lack of investment from follow-on investors deterred by businesses using what have historically been investment funds to provide education loan assistance to their employees.

Analysis

Current Law/Background:

Cybersecurity Investment Fund and Enterprise Fund

TEDCO was launched in 1998 to help commercialize the results of scientific research and development conducted by higher education institutions, federal laboratories, and private-sector organizations. TEDCO also aims to promote new research activity and investments that lead to business development in Maryland. Both CIF and the Enterprise Fund are administered by TEDCO.

Under current law, TEDCO may use the Enterprise Fund to:

- make a grant or loan, at the rate of interest set by TEDCO;
- provide equity investment financing for a business enterprise;
- guarantee a loan, equity, investment, or other private financing to expand the capital resources of a business enterprise;
- purchase advisory services and technical assistance to better support economic development;
- pay TEDCO's obligations to a venture firm under the InvestMaryland program; and
- pay TEDCO's administrative, legal, and actuarial expenses.

In practice, the Enterprise Fund in statute is known as the Maryland Venture Fund (MVF) to the public. MVF provides capital through equity purchases for start-up companies that are developing innovative technologies. Beginning in fiscal 2013, MVF also became the means for the implementation of the InvestMaryland program, which is a State-supported venture capital program funded through a tax credit auction. A portion of these funds are invested by TEDCO and a portion are invested by private venture funds on behalf of the State.

The Governor's proposed fiscal 2018 budget includes \$1.3 million in special funds for TEDCO's administrative costs associated with the Enterprise Fund/MVF and \$6.0 million in special funds for investments by the Enterprise Fund/MVF.

Under current law, the purpose of CIF is 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 TEDCO investments 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.

TEDCO may use CIF to (1) carry out the fund's purposes related to the commercialization of cybersecurity research and cybersecurity technology product development in accordance with current law and (2) pay TEDCO's administrative costs associated with the fund.

In practice, CIF provides up to \$100,000 in financial assistance to support projects that advance cybersecurity technology toward commercialization. The assistance is possibly best described as a "reimbursable grant," as the assistance is expected to be paid back unless the company goes out of business, in which case there is no recourse for TEDCO to recoup payment. If the company receives \$0.5 million or more in follow-on funding, the assistance is either paid back at 8% or converted into equity at TEDCO's discretion.

CIF assistance is meant to move technology further along the commercialization pathway, increase a company's valuation, and lead to follow-on investment for further growth and sustainability. The Governor's proposed fiscal 2018 budget includes \$0.9 million for CIF.

Janet L. Hoffman Loan Assistance Repayment Program

Data from the Institute for College Access and Success indicates that 56% of graduates from the State's four-year public and private nonprofit institutions of higher education in 2015 had undergraduate student debt. The average amount for those with debt was \$27,672, which is the twenty-eighth highest among the states.

The Janet L. Hoffman LARP, one of three State LARPs, is for graduates of an institution of higher education in Maryland who work full time for the government or the nonprofit sector in a priority field, as determined by the Maryland Higher Education Commission (MHEC). Priority is given to recent graduates who are State residents and employed full time principally providing legal services to low-income residents, nursing services in nursing shortage areas in the State, or other employment fields where there is a shortage of qualified practitioners for low-income or underserved residents. Recipients must meet income eligibility requirements as determined by MHEC. Generally, if single, a recipient's annual gross salary must be less than or equal to \$60,000. If married, the recipient's salary must be less than or equal to \$60,000, and the combined salaries of the recipient and spouse

must be less than or equal to \$130,000. Nurses have higher gross income limits of \$75,000/\$160,000.

Award amounts are determined by an applicant's overall reported educational debt. Award funds are distributed annually over a three-year period as long as the recipient remains eligible and continues to submit required documentation. **Exhibit 1** shows the award amounts by total debt.

Exhibit 1
Janet L. Hoffman Loan Assistance Repayment Program Award Amounts

<u>Total Debt</u>	<u>Overall Award Limit</u>	<u>Yearly Payment</u>
\$75,001 or more	\$30,000	\$10,000
\$40,001 to \$75,000	\$18,000	\$6,000
\$15,001 to \$40,000	\$9,000	\$3,000
Up to \$15,000	\$4,500*	\$1,500*

*Payment amount cannot exceed total debt.

Source: Maryland Higher Education Commission

The Governor's proposed fiscal 2018 budget includes \$1.4 million for the program.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Technology Development Corporation; Department of Commerce; Maryland Higher Education Commission; Institute for College Access and Success; Department of Legislative Services

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fn/rhh

Analysis by: Stephen M. Ross

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