

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 398

(Senator Feldman, *et al.*)

Finance

Ways and Means

**Maryland Small Business Innovation Research and Technology Transfer
Incentive Program**

This bill establishes the Maryland Small Business Innovation Research and Technology Transfer (SBIR/STTR) Incentive Program, administered by the Maryland Technology Development Corporation (TEDCO). Generally, an eligible small business may apply for an award or investment of 25% of an SBIR/STTR grant, as defined, limited to \$25,000 for Phase I funding or \$75,000 for Phase II funding. TEDCO may make up to 20 Phase I distributions and 10 Phase II distributions per fiscal year. A special fund is established for the administration of the program. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$1.3 million annually beginning in FY 2021. Special fund revenues and expenditures for TEDCO increase correspondingly and may further increase due to investment proceeds beginning in FY 2023.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
SF Revenue	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3
GF Expenditure	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3
SF Expenditure	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3
Net Effect	(\$1.3)	(\$1.3)	(\$1.3)	(\$1.3)	(\$1.3)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: SBIR/STTR grants are those awarded by the National Institutes of Health under the SBIR or STTR grant programs, or a similar program administered by another federal agency, for a business to engage in research and development that has a strong potential for commercialization.

To qualify for an award or investment under the program, a small business must (1) meet the existing definition of a qualified business in State law and (2) have received a SBIR/STTR Phase I or Phase II grant, or a similar grant, during the six months immediately preceding the submission of its program application.

Subject to the above eligibility requirements, specified application requirements, and the availability of funding for the program, an eligible small business may apply for an award or investment of 25% of a SBIR/STTR award, limited to \$25,000 for Phase I funding or \$75,000 for Phase II funding. Recipients of similar grants to SBIR/STTR are also eligible, and awards or investments may exceed the maximum amount under specified circumstances. TEDCO may make up to 20 Phase I awards or investments and 10 Phase II awards or investments per fiscal year. Businesses are limited to 1 award or investment per fiscal year and up to 3 awards or investments in total.

An award or investment recipient that fails to fulfill the eligibility and maintenance requirements of the program may be required to return all or part of the funds received under the program, as well as any accrued interest or fees. If the recipient does not remain in the State for at least two years after receiving program funds, the return is mandatory.

The program must coordinate with comparable State and county programs to conduct marketing and outreach and to provide assistance to eligible businesses under the program.

Maryland SBIR/STTR Incentive Matching Fund

The Maryland SBIR/STTR Incentive Matching Fund is established as a special, nonlapsing fund, administered by TEDCO. The fund may be used only to provide awards or investments to eligible small businesses and to pay the costs necessary to administer the program, including marketing, outreach, and technical assistance.

Current Law/Background:

TEDCO

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 also aims to promote new research activity and investments that lead to business development in Maryland.

For the purposes of TEDCO programs, “qualified business” generally means a business that, at the time of the first investment in the business under a program:

- either (1) has its principal business operations located in the State, has over half its workforce working in the State, and intends to maintain its principal business operations in the State after receiving an investment under the program or (2) is a start-up business that is approved by the TEDCO investment committee and will, as a result of the investment, have a substantial economic impact in the State;
- has agreed to use the qualified investment primarily to support business operations in the State or, in the case of a start-up company, establish and support business operations in the State;
- has up to 250 employees; and
- is not primarily engaged in specified industries or activities.

To achieve its goals, TEDCO provides nonequity investments to early-stage technology businesses, and it funds development and patenting of new technologies at research universities. TEDCO also develops linkages with federal research facilities in the State and helps companies pursue research funds from federal and other sources. The corporation’s role was expanded in fiscal 2016 with the enactment of Chapter 141 of 2015 to transfer the operation of the Maryland Venture Fund (MVF) and the biotechnology grant program from the Department of Commerce (Commerce).

Except for MVF, which is a special fund, State support for TEDCO’s programs is typically in the form of general funds. The Governor’s proposed fiscal 2021 budget includes \$25.9 million for TEDCO (\$20.5 million in general funds).

SBIR/STTR Programs and Funding

The U.S. Small Business Administration Office of Technology administers the SBIR Program and the STTR Program. Through these two competitive programs, small, high-tech, innovative businesses are a significant part of the federal government’s research and development efforts. Phase I awards are made to evaluate the feasibility and merit of a scientific or technical idea. Phase II awards are granted to expand on the results of a Phase I concept. Montgomery County also recently established a SBIR/STTR matching grant program for certain SBIR/STTR grant recipients.

A related study on SBIR/STTR programs required by Chapter 306 of 2019 can be found on Commerce's website or by clicking [here](#).

State Fiscal Effect: This estimate assumes that sufficient general funds are provided to the SBIR/STTR Incentive Matching Fund each year for TEDCO to provide the maximum amount of funding allowed under the program, plus pay for TEDCO's administrative expenses. Generally, the maximum that may be distributed in a single year is \$1,250,000. TEDCO advises that it requires one half-time employee to administer the program; the salary plus other related costs is estimated to be \$80,000 annually. TEDCO employees are not State employees.

Accordingly, general fund expenditures increase by approximately \$1.3 million annually beginning in fiscal 2021 to fund the program. Special fund revenues and expenditures increase correspondingly as funds are received and then used for authorized purposes. As the bill authorizes TEDCO to make investments, special fund revenues may increase in future years from investment returns, followed by special fund expenditures as those funds are redistributed under the program. TEDCO advises that it does not anticipate any such revenue prior to fiscal 2023.

Small Business Effect: Small businesses that receive funding under the bill benefit significantly, which may lead to further research and development grants under the SBIR/STTR programs or other sources.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 514 (Delegate Qi, *et al.*) - Ways and Means.

Information Source(s): Maryland Technology Development Corporation; Department of Commerce; Department of Legislative Services

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