

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 906 (Senator Rosapepe)
 Budget and Taxation and Finance

Economic Development - Industry 4.0 Technology Grant Program

This bill establishes the Industry 4.0 Technology Grant Program and Fund (TGF) in the Department of Commerce to assist small and medium-sized enterprise (SME) manufacturers in the purchase, implementation, and related employee training of “Industry 4.0 technology” and related infrastructure. Subject to specified requirements, including provision of matching funds, a competitive application process, and a small company set-aside, an eligible company may receive a grant of \$25,000 to \$500,000. From fiscal 2025 through 2028, the Governor must include in the annual budget bill an appropriation of \$1.0 million to TGF.

Fiscal Summary

State Effect: General fund expenditures increase by \$1.1 million annually from FY 2025 through 2028 to provide funds to TGF and to pay for Commerce’s administrative expenses, as discussed below. Special fund revenues and expenditures for TGF increase by \$1.0 million annually from FY 2025 through 2028 as funds are received and used to provide grants to eligible businesses. **This bill establishes a mandated appropriation from FY 2025 through 2028.**

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	\$0	\$1.0	\$1.0	\$1.0	\$1.0
GF Expenditure	\$0	\$1.1	\$1.1	\$1.1	\$1.1
SF Expenditure	\$0	\$1.0	\$1.0	\$1.0	\$1.0
Net Effect	\$0.0	(\$1.1)	(\$1.1)	(\$1.1)	(\$1.1)

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

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Definitions

“Industry 4.0 technology” means smart hardware and software manufacturing technologies. It includes advanced sensor integration, embedded software system applications, robotics and autonomous equipment that collect data, enterprise resource planning and data analytics software, cloud computing and cybersecurity solutions, artificial intelligence for continuous improvement of efficiency and productivity, and infrastructure required to implement a qualifying technology.

“SME manufacturer” means a small or medium-sized enterprise manufacturer. Those business sizes and descriptions are not further defined in the bill.

Authorization for State-chartered Corporation to Administer Instead of Commerce

Commerce may enter into a memorandum of understanding with a State-chartered corporation under Title 10 of the Economic Development Article to authorize the corporation to administer the program.

Eligible Recipients and Uses

To qualify for a grant under the program, an SME manufacturer must submit an application to the program administrator that demonstrates that the company is a qualifying SME manufacturer, has business operations in Maryland, and has been in existence for more than one year.

In awarding grants under the program, the program administrator (whether Commerce or another eligible entity) must award grants on a competitive basis based on:

- the proposed project’s alignment with the adoption of Industry 4.0 technologies;
- the applicant’s demonstrated overall commitment to or strategy for Industry 4.0 technology adoption;
- the demonstrated positive impact of Industry 4.0 technology on the applicant’s business operations and competitiveness; and
- any other information requested by the program administrator.

Grants may be \$25,000 to \$500,000. An SME manufacturer that receives a grant must provide matching funds in the amounts determined by Commerce based on a sliding scale

formula that requires a higher matching percentage for larger businesses. Grants may be used for projects that directly affect manufacturing processes and focus on investments in Industry 4.0 technology commercial-ready equipment through established vendors or related infrastructure.

Commerce must reserve at least 20% of the funds available during each fiscal year for awarding grants to SME manufacturers that employ 50 or fewer employees. If the total amount of grants applied for by those manufacturers is less than the amount reserved during a fiscal year, Commerce may utilize the balance for other SME manufacturers.

Each SME manufacturer must submit a letter to Commerce within one year of receiving a grant that describes how the grant funding was used and includes any invoices related to the implementation of the Industry 4.0 technology or related infrastructure. Commerce may require a grant recipient that fails to fulfill the requirements of the grant to return all or part of the grant to the program.

Commerce must adopt regulations to implement the bill.

Industry 4.0 Technology Grant Fund

TGF is established as a special, nonlapsing, fund in Commerce, consisting of money appropriated in the State budget and any other money from any other source. The fund may be used *only* for providing grants under the program to eligible applicants. Interest earnings accrue to the general fund. From fiscal 2025 through 2028, the Governor must include in the annual budget bill an appropriation of \$1.0 million to TGF.

Current Law: The fiscal 2023 budget includes \$1.0 million in general funds for a similar, but temporary, program to the one established under the bill. As described on Commerce's [website](#), the Maryland Manufacturing 4.0 grant program provides grants to small or mid-sized manufacturing businesses to implement Industry 4.0 technologies, machinery and robotics, and digital business practices in order to remain competitive and drive growth. Awarded grants cover 50% of project costs, with a minimum grant of \$15,000 and a maximum grant of \$50,000. The fiscal 2024 budget as passed by the General Assembly includes an additional \$1.0 million for the program.

Commerce's Office of Finance Programs is charged with delivering and administering the department's financial incentive and tax credit programs. Two programs that provide related incentives are discussed in more detail below. A more comprehensive list of financial incentives available for Maryland businesses can be found on Commerce's [website](#).

Innovation Investment Incentive Tax Credit

The Innovation Investment Incentive Tax Credit (formerly the Cybersecurity Investment Incentive Tax Credit) is a refundable income tax credit for investments in qualified technology companies. An investor who invests at least \$25,000 in a qualified Maryland technology can claim a refundable credit equal to 33% of a qualified investment, not to exceed \$250,000. An enhanced credit of 50% of the investment, up to \$500,000, is available if a qualified technology company is located in certain rural counties or a Regional Institution Strategic Enterprise (“RISE”) Zone and meets other specified requirements. Commerce administers the tax credit, and the total amount of credits awarded each year is generally limited to the amount appropriated to the program’s reserve fund. The program terminates June 30, 2025. The fiscal 2024 budget as passed by the General Assembly includes \$2.0 million in funding for the program.

More Jobs for Marylanders Program

Chapter 149 of 2017 established the More Jobs for Marylanders program, which, after several modifications, provides a refundable State income tax credit to certain businesses that create and maintain a minimum number of qualified jobs. For businesses certified beginning June 1, 2022, the credit is equal to 4.75% of the wages paid to each qualified position. Credits are available for manufacturing businesses, or other businesses if they are located in opportunity zones. Credits may be claimed for 5 or 10 years, depending on the location of the business. Commerce may issue up to \$5.0 million in credit certificates in each of fiscal 2023 and 2024 and may not issue new tax credit certificates after May 31, 2024. The fiscal 2024 budget as passed by the General Assembly includes \$34.0 million in funding for the program.

State Fiscal Effect: This estimate assumes that no discretionary funding is provided for TGF in fiscal 2024. The bill restricts the use of TGF funds to *only* providing grants, so this estimate reflects additional general funds for administrative expenses. Commerce advises that it requires one staff to administer the program.

Accordingly, general fund expenditures increase by \$1,123,176 in fiscal 2025, consistent with the timing of the mandated funding. This estimate reflects the cost of hiring one program manager to administer all aspects of the program, including regulation development, establishment of processes and procedures, evaluation of applications, marketing, oversight, and general administrative functions. It includes a salary, fringe benefits, one-time start-up costs, ongoing operating expenses, and \$1.0 million in grant awards.

Position	1.0
Salary and Fringe Benefits	\$115,491
Other Operating Expenses	7,685
Grant Awards	<u>1,000,000</u>
Total FY 2025 State Expenditures	\$1,123,176

Future year expenditures of \$1.1 million annually reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses and ongoing mandated appropriations to TGF of \$1.0 million annually from fiscal 2026 through 2028. While not required beyond fiscal 2028, expenditures are assumed to increase by similar amounts in future years, as the program is permanent.

Special fund revenues and expenditures for TGF increase by \$1.0 million each year as the mandated appropriation is received and then used to provide grants to eligible businesses. For purposes of this estimate, grants are assumed to be made in the fiscal year that general funds are appropriated, although grants could be made in subsequent years.

This estimate assumes that Commerce administers the program directly, although the Maryland Technology Development Corporation (“TEDCO”) or the Maryland Economic Development Corporation (“MEDCO”) could administer the program if Commerce chooses that option under the bill.

Although the fiscal 2024 budget, as passed by the General Assembly, includes funding for a similar (but temporary) program, this estimate assumes that program is distinct from the program established by the bill.

Small Business Effect: While the bill does not further define the size of SME manufacturers, Commerce must reserve at least 20% of the funds available during each fiscal year for awarding grants to SME manufacturers that employ 50 or fewer employees. Therefore, small manufacturing businesses benefit from at least \$200,000 in available annual funding under the program from fiscal 2025 through 2028. Those businesses must provide matching funds, but the smaller the business, the lower the matching fund percentage will be.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 622 (Delegate Qi, *et al.*) - Ways and Means.

Information Source(s): Department of Commerce; Department of Budget and Management; Maryland Economic Development Corporation; Maryland Technology Development Corporation; Maryland Public-Private Partnership/P3 Marketing Corporation; Department of Legislative Services

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