Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 479 (Prince George's County Delegation)
Ways and Means

Economic Development – Independent Innovation Agency of Prince George's County – Establishment PG 401–23

This bill establishes the Independent Innovation Agency of Prince George's County to promote innovation and technology in the county. The agency is an instrumentality of the State, managed by a board, and may employ staff and retain professional and consultant services. The State and county must jointly fund the agency, although no funding amount is specified or required. A related special fund is established and administered by the agency for programmatic and administrative expenses. The agency must establish two programs and permanently convene two workgroups. The agency must contract for a needs assessment; the resulting report is due January 1, 2025. The agency may not establish a workgroup or program required under the bill until the assessment and report are complete.

Fiscal Summary

State Effect: Special fund revenues and expenditures for the Prince George's County Venture Capital Fund (VCP) increase by $1.25 million annually in FY 2024 and 2025 and by $2.2 million annually in FY 2026 through 2028 (and beyond). General fund expenditures increase by $625,000 annually in FY 2024 and 2025 and by $1.1 million annually in FY 2026 through 2028 (and beyond) to provide the State's share of funding. Special fund revenues and expenditures for VCP may further increase beginning in FY 2027 from investment returns. The bill does not mandate or otherwise specify funding levels for the agency; assumptions for these estimates are discussed below.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	$1,250,000	$1,250,000	$2,200,000	$2,200,000	$2,200,000
GF Expenditure	$625,000	$625,000	$1,100,000	$1,100,000	$1,100,000
SF Expenditure	$1,250,000	$1,250,000	$2,200,000	$2,200,000	$2,200,000
Net Effect	($625,000)	($625,000)	($1,100,000)	($1,100,000)	($1,100,000)

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

Local Effect: Prince George's County expenditures increase by $625,000 annually in FY 2024 and 2025 and by $1.1 million annually in FY 2026 through 2028 (and beyond) to provide the county's share of funding. Revenues are not affected.

Small Business Effect: Potential Meaningful.

Analysis

Bill Summary:

General Structure and Powers

The Independent Innovation Agency of Prince George's County is a tax-exempt body politic and corporate and is an instrumentality of the State; the agency is an independent unit that the Governor may not place in a principal department of State government.

The agency is managed by an executive board, consisting of specified membership, including two members of the General Assembly. Most members are appointed by the Prince George's County executive. The board may establish workgroups to conduct its work, which may include non-board members. The board must appoint an executive director and may employ staff and retain professional and consultant services. The board determines the power and duties of staff and sets staff compensation.

The agency is granted various powers, such as the ability to adopt bylaws, accept funds, make investments, and create or otherwise own, control, or be a member of certain corporate entities.

Joint Financing and Special Fund: The State and Prince George's County jointly must finance the agency and its activities, although the agency may accept additional money from any other public or private source. No amount is specified or mandated.

The Prince George's County VCP is established as a special, nonlapsing fund to, within the county (1) invest in tech start-up companies and small businesses and (2) promote innovation and technology. The agency administers the fund. Interest earnings accrue to the fund. The fund may be used only to provide investments for projects that meet the bill's purposes and for agency administrative expenses.

Needs Assessment

By January 1, 2024, the board must issue a request for proposals (RFP) to conduct a needs assessment of the entrepreneurial environment in Prince George's County to inform and educate the agency's future actions. The RFP must include the following elements and expectations:

- studying technology clusters in the county;
- reviewing the current entrepreneurial environment of the county; and
- identifying barriers to entry for start-up companies and entrepreneurs in the county.

By January 1, 2025, a person awarded the contract must submit a final report to the board, and the agency must submit a copy of the final report to other specified entities by January 15, 2025. The agency may not establish a workgroup or program required under the bill until the needs assessment and final report are complete.

Programs and Workgroups

The agency must establish two programs – the Innovation Places Program and the Entrepreneurs-in-Residence Program – and permanently convene two workgroups – the Industry Sector Workgroup and the Higher Education Talent Pipeline Workgroup.

Innovation Places Program: The Innovation Places Program is established in the agency to foster innovation and entrepreneurship by identifying innovation places in the county. The agency must:

- identify and designate areas within the county that have potential to be innovation places that are compact and fall within specific municipalities or well-defined unincorporated areas;
- identify, designate, and fund the initial costs of developing an innovation place; and
- encourage collaboration between local entrepreneurs and start-up companies and local anchor institutions (educational facilities, medical centers, large-scale businesses and governmental entities).

Entrepreneurs-in-Residence Program: The Entrepreneurs-in-Residence Program is established in the agency to identify highly experienced entrepreneurs who have created successful innovation-based start-up companies and match them with entrepreneurs and start-up companies in Prince George's County. The agency may decide whether a mentor in the program should be compensated based on the mentor's time commitment to the program.

Industry Sector Workgroup: The agency must convene the Industry Sector Workgroup of interested stakeholders to study industries of opportunity in Prince George's County. The workgroup must include representatives from specified industries, including quantum computing.

The workgroup must set goals and develop plans on how the agency should invest and support industries of opportunity within the county. It must be available to advise the agency on its findings on request and must submit an annual report to the agency by December 1 each year.

Higher Education Talent Pipeline Workgroup: The agency must convene the Higher Education Talent Pipeline Workgroup of interested stakeholders to focus on promoting how institutions of higher education can partner with local entrepreneurs and start-up companies to foster innovation within Prince George's County. The workgroup must include representatives from specified institutions of higher education and individuals with workforce development experience.

The workgroup must (1) in consultation with local entrepreneurs, businesses, and other entities, make plans for the research and potential commercialization of technologies within higher education and (2) develop goals and plans to help students become innovators and entrepreneurs in the county. It must be available to advise the agency on its findings on request and must submit an annual report to the agency by December 1 each year.

Current Law: The State and local governments operate and fund a number of economic development entities, some of which focus on innovation and/or entrepreneurship.

At the State level, in particular, the Maryland Technology Development Corporation ("TEDCO") operates several relevant State programs that have mandated State funding. For more information, see the **Appendix – Maryland Technology Development Corporation**.

Economic development activities at the local level are administered in several ways. Each of the counties and Baltimore City has an agency or organization that serves as the primary economic development office. Most counties use government agencies to perform this function in which the lead economic development official is appointed by and reports to the county executive or county commissioners or council. Some use an advisory board representing the business community appointed to work with the agency. Other jurisdictions rely on private or quasi-public economic development corporations or economic development commissions to direct and administer their efforts. Examples of these include the Baltimore Development Corporation and the Prince George's County Economic Development Corporation.

State/Local Fiscal Effect: The following estimate is preliminary only, as expenditures associated with creating the agency cannot be reliably determined without actual experience under the bill. Actual expenditures will depend in large part on the scope of the activities undertaken by the agency. The following are considerations for and assumptions used in the preliminary estimate:

- The State and county must jointly fund the agency, although no funding amount is specified or required. This estimate assumes 50% State funding.
- The Prince George's County VCP is established and administered by the agency for programmatic and administrative expenses.
- The agency must be created, staffed, and its other basic administrative costs funded. This estimate assumes $1.0 million annually in total administrative costs beginning in fiscal 2024.
- The agency must contract for a needs assessment that must be completed by January 1, 2025, and before any required program or workgroup can be established. This estimate assumes $0.5 million for contractual services split evenly between fiscal 2024 and 2025.
- Under the Innovation Places Program, the agency must identify, designate, and *fund* the initial costs of developing innovation places. This estimate assumes $1.0 million annually beginning in fiscal 2026.
- Under the Entrepreneurs-in-Residence Program, the agency may compensate mentors. This estimate assumes $200,000 annually beginning in fiscal 2026.
- Any costs associated with agency workgroups are assumed to be minimal and absorbable within existing budgeted resources.
- Special fund revenues and expenditures for VCP may further increase as investments generate revenues and those funds are spent. This estimate assumes such activity could begin in fiscal 2027.

Under these assumptions, total costs for the agency are $1.25 million annually in fiscal 2024 and 2025 and $2.2 million annually in fiscal 2026 through 2028 (and beyond).

Accordingly, general fund expenditures increase by $625,000 annually in fiscal 2024 and 2025 and by $1.1 million annually in fiscal 2026 through 2028 (and beyond). Prince George's County expenditures increase by the same amounts. Special fund revenues and expenditures for VCP increase correspondingly as funds are received from the State and Prince George's County and expended for required and authorized purposes. Special fund revenues and expenditures for VCP may further increase as investments generate revenues and those funds are spent beginning in fiscal 2027.

Expenditures may vary from this estimate, particularly for funding related to developing innovation places, or if the agency establishes other programs.

Small Business Effect: Small businesses in Prince George's County may benefit from funding and/or resources that become available due to the bill, although the amounts and timing are unknown.

Additional Information

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

Designated Cross File: None.

Information Source(s): Department of Commerce; Prince George's County; University System of Maryland; Department of Legislative Services

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Appendix – Maryland Technology Development Corporation

The Maryland Technology Development Corporation (TEDCO) is an independent entity established by the Maryland General Assembly in 1998 to enhance the transfer of technology from universities and federal laboratories to the private sector and foster the growth of companies in critical or high-growth sectors. TEDCO investments must meet statutory eligibility criteria that generally require a business to have and subsequently maintain a presence in the State. TEDCO programs typically assist companies based on a company's stage of development: from early stage and technology transfer to growth stage.

TEDCO's purview and funding has expanded in recent years as legacy programs were transferred from the Department of Commerce and new programs were established directly within TEDCO. The Maryland Venture Fund and a biotechnology grant program were transferred to TEDCO in fiscal 2016. The following programs have been established by legislation since 2021:

- **Pre-Seed Builder Fund:** The Pre-Seed Builder Fund supports the development of start-up companies run by entrepreneurs from socially or economically disadvantaged backgrounds that hinder access to traditional forms of capital and executive networks at the pre-seed stage. The Governor must include appropriations in the budget bill in the following amounts: $5.0 million in fiscal 2023; $6.2 million in fiscal 2024; and $7.5 million annually beginning in fiscal 2025.

- **Inclusion Fund:** The Inclusion Fund provides capital investment in technology-based businesses that (1) would qualify for investment under the Builder Fund, as provided in TEDCO regulations; (2) are at least 30% owned by individuals who demonstrate economic disadvantage; and (3) are controlled and managed for at least one year after the time of investment by an individual or individuals who demonstrate economic disadvantage.

- **Maryland Makerspace Initiative Program:** The program encourages the establishment and expansion of makerspaces throughout the State. The Governor must include an appropriation in the annual budget bill of at least $1.0 million in fiscal 2024 through 2028 for the fund. The program terminates September 30, 2028.

- **Maryland Equity Investment Fund:** The Maryland Equity Investment Fund allows unappropriated general fund surplus to be invested in a "qualified business" – with a goal to increase private equity and venture capital in the State – and the interest earnings and investment returns realized to the benefit of participants of the several pension systems managed by the State Retirement and Pension System. For fiscal 2024, the Governor must include an appropriation in the budget bill to the fund equal to 10% of the unappropriated general fund surplus in excess of $10.0 million from the second prior fiscal year, up to a maximum of $10.0 million, with a corresponding decrease in the typical required appropriation.

- **Small Business Innovation Research and Technology Transfer Incentive (SBIR/STTR) Program:** The SBIR/STTR Program allows eligible small businesses to apply for State awards or investments of 25% of SBIR/STTR federal grants, 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 for a total of $1.25 million.

For a more thorough discussion of TEDCO's structure and programs, including how its programs support companies in different stages of development, see "Chapter 13. Economic Development and Business Regulation" of *Volume II – Government Services in Maryland* of the 2022 Legislative Handbook Series.