

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 549

(The President, *et al.*) (By Request - Administration)

Budget and Taxation

Ways and Means

**Economic Development – Build Our Future Grant Pilot Program and Fund
(Innovation Economy Infrastructure Act of 2023)**

This Administration bill establishes the Build Our Future Grant (BOFG) Pilot Program and Fund (BOFGF) in the Department of Commerce to provide grant funding for infrastructure projects intended to support innovation in eligible technology sectors. Under the program, grants of up to \$2.0 million may be awarded to private companies, nonprofits, local governments, or colleges and universities in the State and may be used to defray specified costs associated with an eligible innovation infrastructure project. A grant recipient must provide matching funds of either 200% or 400%, depending on the size of the grant. Additional requirements are placed on grants to and used by colleges and universities. A single entity is limited to \$2.0 million in grants in a fiscal year. Commerce administers BOFGF, which may be used to provide grants and for administrative costs (up to 10%).

The bill takes effect July 1, 2023, and terminates June 30, 2027.

Fiscal Summary

State Effect: General fund expenditures increase by \$10.0 million annually from FY 2024 through 2027, under the assumptions discussed below. Special fund revenues and expenditures for BOFGF increase correspondingly. Higher education revenues and expenditures increase to the extent that public institutions of higher education receive grants and provide matching funds. The FY 2024 budget as passed by the General Assembly includes a general fund appropriation of \$10.0 million for Commerce, contingent on enactment of this bill.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	\$10.0	\$10.0	\$10.0	\$10.0	\$0
Higher Ed Rev.	-	-	-	-	\$0
GF Expenditure	\$10.0	\$10.0	\$10.0	\$10.0	\$0
SF Expenditure	\$10.0	\$10.0	\$10.0	\$10.0	\$0
Higher Ed Exp.	-	-	-	-	-
Net Effect	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	\$0.0

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

Local Effect: Local revenues and expenditures increase to the extent that local governments, including community colleges, receive grants and provide matching funds.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary:

Eligible Recipients and Uses

Grants may be awarded to private companies, nonprofit entities, local governments, or colleges and universities in the State.

Commerce may award grants to approved recipients carrying out infrastructure projects intended to support innovation in any of the following eligible technology sectors: advanced manufacturing; aerospace; agriculture; artificial intelligence; biotechnology; blue technology; cybersecurity; defense; energy and sustainability; life sciences; quantum; and sensor and robotics. Examples of eligible projects include sensitive compartmented information facilities, wet laboratories, cyber ranges, prototype manufacturing centers, and other specialized workforce training, skill certification, or research-related spaces.

The grant awards may be used to defray the cost of acquiring, constructing, rehabilitating, installing, improving, or equipping eligible innovation infrastructure projects.

A single entity may be awarded a maximum of \$2.0 million in grant funds per fiscal year. For a grant of up to \$1.0 million, the grant recipient must provide matching funds of at least 200%. For grants exceeding \$1.0 million and up to \$2.0 million, the grant recipient must provide matching funds of at least 400%. Matching funds received through other State grant programs are not counted toward the requirement. The grant recipient must demonstrate the ability to cover the full estimated cost of the project.

Grants to colleges and universities must be for projects that are performed in collaboration with private industry or offer significant economic impact and the opportunity for entrepreneurship or technological innovation clusters in the State. No more than 50% of the appropriation to BOFGF can be awarded to colleges and universities in a fiscal year.

A grant recipient may be subject to repayment of the grant in an amount determined by Commerce if the recipient fails to comply with the department's reporting requirements or demonstrate appropriate use of the grant funds.

Build Our Future Grant Fund

BOFGF is established as a special, nonlapsing, fund in Commerce, consisting of money appropriated in the State budget, interest earnings, and any other money from any other source. The fund may be used to provide grants in accordance with the program and to pay administrative costs (up to 10% per fiscal year). All funds remaining in BOFGF when the bill terminates June 30, 2027, revert to the general fund.

Reporting Requirement

By July 1, 2026, Commerce must report to the Governor and the General Assembly on the projects funded through and the economic impact of the program.

Current Law/Background: There is no direct State analogue for the BOFG Pilot Program established under the bill. Several related programs are described below, along with their funding levels in the fiscal 2024 budget as passed by the General Assembly. Commerce's Office of Finance Programs is charged with delivering and administering the department's financial incentive and tax credit programs. A more comprehensive list of financial incentives available for Maryland businesses can be found on Commerce's [website](#).

Maryland Economic Development Assistance Authority and Fund

The Maryland Economic Development Assistance Authority and Fund (MEDAAF) is Commerce's primary and most flexible tool for business financial assistance. The fund has five capabilities, which are to provide:

- loans to businesses of up to \$10.0 million for a significant economic development opportunity on a statewide or regional level;
- loans to businesses of up to \$5.0 million, or conditional loans and grants to businesses of up to \$2.0 million, for a local economic development opportunity;
- direct assistance to the Maryland Economic Development Corporation or a local jurisdiction for purposes such as land acquisition, infrastructure improvements, acquisition of fixed assets, and leasehold improvements;
- grants to regional or local revolving loan funds; and
- special purpose loans, including day care facilities, aquaculture, and brownfields.

Generally, businesses must be located within a priority funding area and an eligible industry sector. With few exceptions, assistance may not exceed 70% of the total project costs. The fiscal 2024 budget as passed by the General Assembly includes \$17.5 million for MEDAAF.

Biotechnology and Innovation Investment Incentive Tax Credits

The Biotechnology Investment Incentive Tax Credit is a refundable income tax credit for investments in qualified biotechnology companies. An investor who invests at least \$25,000 in a qualified Maryland biotechnology company can claim a credit equal to 33% of the investment, not to exceed \$250,000. An enhanced credit of 50% of the investment, up to \$500,000, is available if a qualified biotechnology 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 awarded in each year is generally limited to the amount appropriated to the program's reserve fund. Commerce may not issue any tax credit certificates after June 30, 2028. The fiscal 2024 budget as passed by the General Assembly includes \$12.0 million in funding for the program.

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 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: The fiscal 2024 budget as passed by the General Assembly includes a general fund appropriation of \$10.0 million for Commerce, contingent on enactment of this bill. The bill does not mandate any level of funding in any year; however, given the potential size of the program grants, this analysis assumes \$10.0 million is provided each year until the program terminates and that Commerce provides all of the available funding to eligible recipients each year.

Accordingly, general fund expenditures increase by \$10.0 million from fiscal 2024 through 2027. Special fund revenues and expenditures for BOFGF increase correspondingly as funds are received and used to provide grants and to potentially pay for Commerce's administrative costs. At this funding level, Commerce advises that it can provide a limited number of large grants (for example, 10 grants of \$1.0 million) each year with existing staff resources. In the event that more grants are provided, either due to smaller grant amounts or additional program funding, up to 10% of BOFGF funds may instead be used for the department's administrative expenses.

Among other eligible recipients and subject to specified requirements, Commerce may provide grants to colleges and universities in the State – up to 50% of the BOFGF appropriation each year. Therefore, higher education revenues increase from fiscal 2024 through 2027 to the extent that funds are awarded to public institutions of higher education; higher education expenditures increase beginning in fiscal 2024 as grant funds are used and to provide required matching funds.

While not assumed in the above estimate, any remaining funds in BOFGF revert to the general fund upon termination of the program.

Local Fiscal Effect: Among other eligible recipients, Commerce may provide grants to local governments and colleges and universities in the State, which presumably would include community colleges. Therefore, local revenues and expenditures increase to the extent local governments, including community colleges, receive grants and provide matching funds.

Additional Information

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

Designated Cross File: HB 552 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means.

Information Source(s): Department of Commerce; Department of Budget and Management; University System of Maryland; Morgan State University; Maryland Independent College and University Association; Maryland Municipal League; Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2023

rh/lgc Third Reader - March 23, 2023

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Revised - Budget Information - June 15, 2023

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Innovation Economy Infrastructure Act

BILL NUMBER: SB0549/HB0552

PREPARED BY: Brad Fallon

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

If passed, this legislation will impact a variety of businesses. Most directly, the Build Our Future Grant Pilot Program will impact real estate developers who construct, rehabilitate, and/or modify infrastructure to house businesses in certain, tech-driven industries. While less common, this may also impact certain businesses who own the facilities that they operate within. At the matching ratios set forth in the bill, this could cover between 33% and 20% of total project costs for a company receiving a grant with a 2:1 match ratio and up to 20% of total project costs for a company receiving a grant with a 4:1 match ratio.

This will also impact not-for-profit organizations, local government, colleges, and universities through direct financial assistance. The economic activity initiated by these entities and for-profit organizations will impact construction companies, equipment manufacturers and retailers, and other related businesses.