

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 699

(Senator Augustine, *et al.*)

Finance and Budget and Taxation

Ways and Means and Appropriations

Maryland Technology Development Corporation - Equitech Growth Fund and Commission

This bill establishes the Equitech Growth Commission and Fund (EGF) in the Maryland Technology Corporation (TEDCO) to support economic competitiveness and inclusive growth of emerging and advanced industries in the State. TEDCO must staff the commission, which must develop and report on a strategic plan and 10-year goals by July 1, 2025, for growing the State’s innovation economy. From fiscal 2025 through 2033, the Governor must include in the annual budget bill an appropriation of \$5.0 million for awards from EGF. **The bill takes effect July 1, 2023. Provisions related to the commission terminate June 30, 2025.**

Fiscal Summary

State Effect: General fund expenditures increase by \$3.0 million in FY 2024 and by \$5.6 million annually from FY 2025 through 2033 to provide funds to EGF for awards and to cover TEDCO administrative expenses. Special fund revenues and expenditures for EGF increase correspondingly. State revenues and expenditures may increase from awards under the program beginning as early as FY 2024 (not shown but discussed below). The FY 2024 budget as passed by the General Assembly includes a general fund appropriation of \$3.0 million for EGF, contingent on enactment of this bill or its cross file. **This bill establishes a mandated appropriation from FY 2025 through 2033.**

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	\$3.0	\$5.6	\$5.6	\$5.6	\$5.6
GF Expenditure	\$3.0	\$5.6	\$5.6	\$5.6	\$5.6
SF Expenditure	\$3.0	\$5.6	\$5.6	\$5.6	\$5.6
Net Effect	(\$3.0)	(\$5.6)	(\$5.6)	(\$5.6)	(\$5.6)

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 funds and provide matching funds beginning as early as FY 2024.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Equitech Growth Commission

The Equitech Growth Commission is established, consisting of specified membership and staffed by TEDCO. By July 1, 2025, the commission must develop an inclusive, comprehensive, long-term strategic plan and 10-year goals for growing the State's innovation economy to be highly competitive with other states and regions relative to growing, attracting, and retaining a skilled workforce and high-growth businesses. The strategic plan must include mechanisms to increase the participation of communities in the innovation economy, create pathways for high-paying jobs, and increase and expand wealth in minority communities. The strategic plan must be reported to the Governor and the Presiding Officers by July 1, 2025.

Equitech Growth Fund

EGF is established in TEDCO as a special, nonlapsing fund to support the economic competitiveness and inclusive growth of emerging and advanced industries in the State through the creation of supporting infrastructure assets, resources, and a diverse workforce that builds the strengths of the State's economy. TEDCO must administer the fund. The fund consists of money appropriated in the State budget to the fund, interest earnings, and any other money from any other source accepted for the benefit of the fund. EGF must leverage investment from the private sector, funding from federal sources, and other sources of funding.

TEDCO must award grants, investments, loans, or other financial assistance from EGF to public, nonprofit, or private entities in the State, including institutions of higher education and public-private partnerships (P3s). Awards must target workforce development and infrastructure that will attract and retain businesses in the State. Awards must be consistent with the 10-year goals in the strategic plan developed by the Equitech Growth Commission.

From fiscal 2025 through 2033, the Governor must include in the annual budget bill an appropriation of \$5.0 million for awards from EGF.

TEDCO must adopt regulations to establish:

- a competitive application process;
- review criteria and procedures for making awards, including private leverage requirements for awards;
- processes and metrics for monitoring each project and the success, economic impact, and impact of the award on the State's diversity, equity, and inclusion in the State's innovation economy; and
- processes for ensuring that the programmatic funds and leveraged funds are invested within the State.

By July 1 each year, beginning in 2024, TEDCO must report to the Governor, the President of the Senate, and the Speaker of the House on awards made from EGF.

Current Law: 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 further information on TEDCO, including a general overview and recent program additions, see the **Appendix – Maryland Technology Development Corporation**.

State Fiscal Effect: The fiscal 2024 budget as passed by the General Assembly includes a general fund appropriation of \$3.0 million for EGF, contingent on enactment of this bill or its cross file establishing EGF in TEDCO. No further usage limitation on the funding is specified. The bill also requires the Governor to include in the annual budget bill an appropriation of \$5.0 million for awards from EGF from fiscal 2025 through 2033. The bill is silent as to whether EGF may be used to cover administrative costs but does specify that the mandated appropriations are *for awards*. Therefore, this estimate assumes fiscal 2024 contingent budget funding can be used for administrative costs, but that mandated funding from fiscal 2025 through 2033 cannot. TEDCO anticipates total administrative expenses of approximately \$0.6 million annually, including two staff and other study, marketing, accounting, and overhead costs. TEDCO employees are not State employees.

Accordingly, general fund expenditures increase by \$3.0 million in fiscal 2024 due to contingent budget funding and by \$5.0 million annually from fiscal 2025 through 2033 due to the bill's mandated appropriation. General fund expenditures further increase, by approximately \$0.6 million annually from fiscal 2025 through 2033, to provide funding for TEDCO's administrative expenses. For purposes of this estimate, the additional funding is assumed to also flow through EGF.

Special fund revenues and expenditures for EGF increase correspondingly as those funds are received and used to provide financial assistance and pay for TEDCO's administrative expenses. For purposes of this estimate, awards are assumed to be made in the fiscal year that general funds are appropriated, although awards could be made in subsequent years. Awards must be consistent with the 10-year goals in the strategic plan developed by the Equitech Growth Commission, due by July 1, 2025 (fiscal 2026). Therefore, this estimate further assumes the goals are sufficiently developed in time for awards to be made in fiscal 2024 and 2025 that are consistent with those goals. If not, special fund expenditures for awards are delayed.

While not required by the bill, TEDCO anticipates a 40%/60% split between programmatic funding for workforce infrastructure and physical infrastructure awards, with workforce infrastructure awards averaging \$250,000 and physical infrastructure awards averaging \$1.0 million.

The program may provide several types of financial assistance. Some types, such as loans and investments, can reasonably be assumed to generate revenue for the program in future years. The additional revenue may then be used to provide additional financial assistance (or possibly cover administrative expenses). Accordingly, beginning as early as fiscal 2025, special fund revenues and expenditures for EGF further increase beyond annual general fund appropriations to the extent that revenue-generating financial assistance is provided by TEDCO under the program.

Expense reimbursements for commission members are assumed to be minimal and absorbable within existing budgeted resources.

Public entities in the State, including institutions of higher education and P3s, are eligible recipients of EGF funds. However, EGF must leverage investment from other sources of funding. Accordingly, special fund revenues (Executive Branch agencies) and/or higher education revenues increase to the extent that funds are received from EGF. State expenditures (all funds) and/or higher education expenditures increase as necessary to fulfill any matching requirement, beginning as early as fiscal 2024.

As the program is permanent, related program activities, including annual discretionary general fund appropriations, are assumed to continue after the final mandated appropriation in fiscal 2033.

Local Fiscal Effect: Public entities in the State are eligible recipients of EGF funding. However, EGF must leverage investment from other sources of funding. Therefore, local government revenues and expenditures increase to the extent that local governments and community colleges receive funding and provide matching funds beginning as early as fiscal 2024.

Small Business Effect: Small businesses benefit significantly from investments made under the bill, both directly as recipients of funding and indirectly as beneficiaries from the infrastructure and resources supported by the program's investments.

Additional Comments: The fiscal 2023 budget restricted \$250,000 for TEDCO to conduct a study on the effectiveness and impact of the State's current economic development strategy as it relates to specific areas, including financial, policy, and governance recommendations for the establishment of a Maryland Equitech Growth Fund. TEDCO hired a consultant to conduct the study, and the resulting [report](#) was submitted in January 2023. The report analyzed Maryland's high-tech industry growth in comparison with other states; employment in science, technology, engineering, and math (STEM) jobs and business ownership by race, ethnicity, and gender; and opportunities for Maryland to support high-tech industry growth in an inclusive way.

Recommendations from the report include that Maryland should (1) develop a high-tech industry recruitment and expansion strategy with a focus on high-tech manufacturing; (2) focus on workforce development, including degree and non-degree certificate programs, to expand the participation of women, people of color, first-generation college students in STEM careers; and (3) expand entrepreneurial leadership training and mentoring for people of color and women as well as investments in companies and venture funds led by people of color and women.

Additional Information

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

Designated Cross File: HB 781 (Delegate Atterbeary, *et al.*) - Ways and Means and Appropriations.

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

Fiscal Note History:
rh/lgc

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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.