



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
Kelly M. Schulz | Secretary of Commerce

DATE: February 20, 2020 **COMMITTEE:** House Ways and Means
BILL NO: House Bill 514
Maryland Small Business Innovation Research and Technology Transfer Incentive Program
POSITION: Support

The Maryland Department of Commerce supports House Bill 514 – Maryland Small Business Innovation Research and Technology Transfer Incentive Program.

Bill Summary:

HB 514 establishes, within TEDCO, a new incentive program to provide grants to small businesses that receive Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) grants from a federal agency. It also establishes a special non-lapsing fund, the Maryland Small Business Innovation Research and Technology Transfer Incentive Matching Fund.

The grant awards under this program would be structured as follows:

- Phase I SBIR/STTR Grant – the small business would be eligible for the lesser amount of 25% of the Phase I grant, or \$25,000.
- Phase II SBIR/STTR Grant – the small business would be eligible for the lesser amount of 25% of the Phase I grant, or \$75,000.
- The legislation allows for grant awards to exceed those amounts upon the recommendation of the Executive Director of TEDCO, and approval from the Board.

The bill establishes the following program criteria:

- To qualify, a business must be a qualified business, have received an SBIR or STTR grant within the last six months from the date of application, and must remain in the State for at least two years after receiving the grant or repay the grant.
- The number of total grants per fiscal year is limited to 20 Phase I grants OR 10 Phase II grants.
- A small business may not receive more than one award or investment per fiscal year and is limited to three awards total from the fund.
- Awards will be made through a competitive process on a quarterly basis.

The bill also provides some criteria for the selection of grant awardees. TEDCO shall consider:

- The impact of the award or investment on the small business.
- How the small business will utilize the award toward commercialization of the research conducted by the small business.
- May consider any additional criteria specified in the regulation to be developed.

Background:

During the many conversations and stakeholder meetings hosted by Commerce, as part of the SBIR/STTR Study which was submitted to the General Assembly in January 2020 (House Bill 1161, 2019 Session), we heard that researchers and small businesses with limited resources need assistance with applications, and additional funding to pay for expenses not authorized under the federal Phase I SBIR grants. There was strong support among both industry and academic partners for the establishment of this fund. Additionally, several key states that are competitors to Maryland in the innovation economy have similar programs and have been very successful with technology transfer and commercialization, include Massachusetts, North Carolina and Virginia.

Recommendation #7 from Commerce’s final SBIR/STTR report was “Examine the Creation of a State SBIR/STTR Matching Grant Program After the Implementation of a State I-Corps Program and SBIR/STTR Application Assistance Program.” The report further recommended that the following considerations be made when establishing such a program: awarding grants competitively rather than first come-first serve; giving preference to applications who have completed I-Corps or similar training; ensuring the program targeted small businesses; requiring companies to stay in Maryland for a defined period after the investment; allowing state funds to be used for expenses not allowed under federal SBIR grants (such as administrative expenses); and limiting the number of grant awards to individual companies to prevent “SBIR mills.”

Rationale:

House Bill 514 addresses the considerations outlined in the report. TEDCO is a logical organization to implement and oversee this program, as they are already engaged in technology transfer activities, providing grants and investments to entrepreneurs, and has experience providing SBIR/STTR technical assistance. This legislation is being proposed in conjunction with other legislation that would establish the training and technical assistance program outlined in the report. House Bill 514 specifies that the awards will be competitive and gives TEDCO the ability to create additional criteria for making grant awards; it requires companies to remain in Maryland for two years after the award; and it limits the number of awards both annually as well as an overall lifetime limit per company. The timing of the awards – on a quarterly basis – provides good flexibility to the program to meet a wide range of SBIR program deadlines across various federal agencies.

Maryland is a leader in innovation. The federal SBIR/STTR programs were created to achieve greater innovation and R&D among small businesses and having a program like this in our state supports our small, innovative companies leverage federal research dollars to conduct R&D and develop novel technologies that would boost our competitiveness in the innovation economy.

Commerce respectfully requests a favorable report on House Bill 514.