

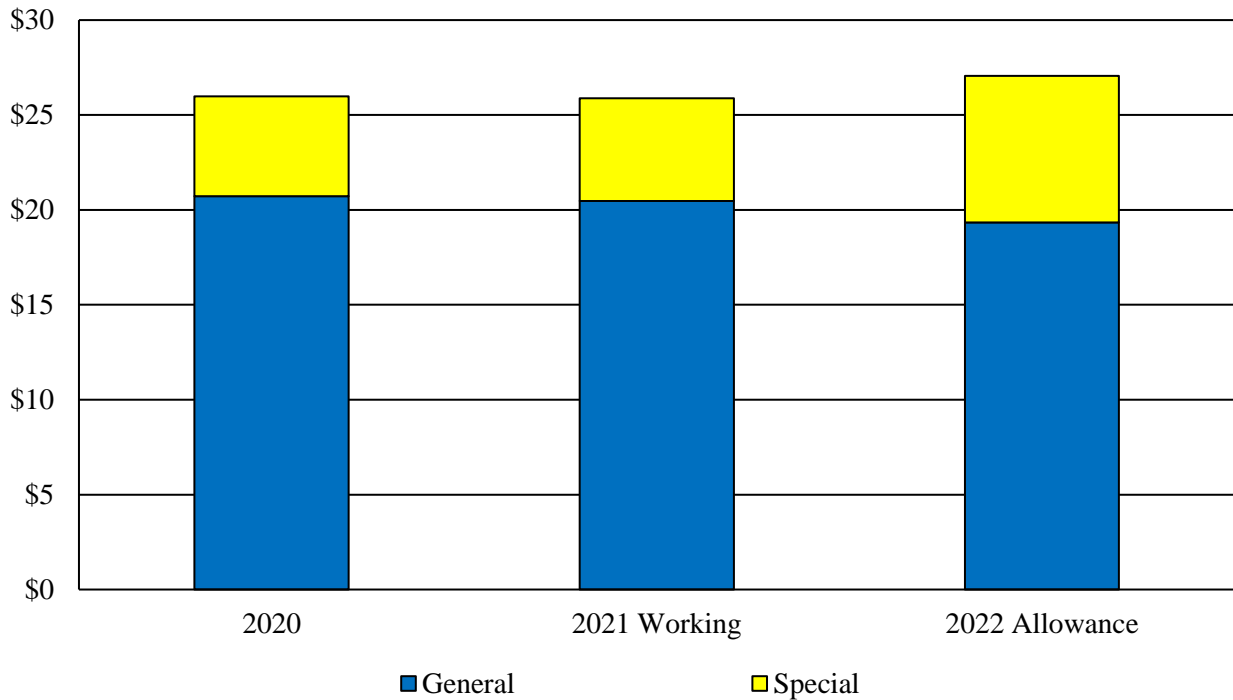
T50T01
Maryland Technology Development Corporation

Program Description

The Maryland Technology Development Corporation (TEDCO) was launched in 1998 with the mission to provide early investment and to help build Maryland-based technology companies. TEDCO also aims to help commercialize the results of scientific research and development conducted by higher education institutions, federal laboratories, and private-sector organizations. In addition, TEDCO supports stem cell research and development at Maryland’s research universities and private-sector research corporations in accordance with the Maryland Stem Cell Research Act of 2006. The corporation’s role was expanded in fiscal 2016 with the enactment of Chapter 141 of 2015, to transfer the operation of the Maryland Venture Fund (MVF) and the biotechnology grant program from the Department of Commerce. Recent leadership changes saw Mr. Troy LeMaile-Stovall take over as TEDCO’s Chief Executive Officer effective September 2020. TEDCO also filled the position of chief administrative officer in July 2020 and is in the process of hiring a managing director of investments.

Operating Budget Summary

**Fiscal 2022 Budget Increases \$1.2 Million, or 4.6%, to \$27.1 Million
(\$ in Millions)**



Note: The fiscal 2021 appropriation includes deficiencies.

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- General funds decrease by \$1.1 million primarily due to a \$1 million decrease for the Maryland Stem Cell Research Fund, while special funds increase by \$2.3 million for the MVF.

Fiscal 2020

The fiscal 2020 budget restricted \$250,000 of TEDCO’s general fund appropriation to fund new positions in the State’s Attorney’s offices in Prince George’s County and Baltimore City. While these funds were recognized in the fiscal 2021 budget as a planned reversion, the funds were released to TEDCO unintentionally. Although the funds are not recognized in the fiscal 2022 budget plan as a planned reversion, the Department of Budget and Management expects TEDCO to revert the funds in fiscal 2021. **The Department of Legislative Services recommends increasing the negative deficiency appropriation for TEDCO in fiscal 2021 by \$250,000 to formalize the reversion of these funds.**

Fiscal 2021

Proposed Deficiency

The fiscal 2022 allowance includes a \$10 million negative deficiency for the Maryland Technology Infrastructure Program, Authority, and Fund (MTIF) in fiscal 2021. This funding was contingent on legislation to establish the MTIF program being enacted in calendar 2020, but such legislation did not pass. The goal of the MTIF program would be to provide capital and operating assistance to public or private institutions to develop large-scale place-making projects to attract talent and enable industry concentration, foster public-private collaboration between research and industry, attract venture capital firms to fund startup and emerging companies in the State, and support talent development initiatives for an advanced technology workforce.

COVID-19 Relief Funding Administered by TEDCO

The fiscal 2021 working appropriation does not reflect an additional \$5 million in special funds from the Rainy Day Fund that the Governor provided to TEDCO as part of the Maryland Strong Economic Recovery Initiative, as the budget amendment for this funding was still being processed at the time of the fiscal 2022 budget submission. This funding represents a 24% increase in TEDCO’s fiscal 2021 working appropriation. The goal of this new program, known as the Rural and Underserved Business Recovery from Impact of COVID-19 (RUBRIC) Program, is to provide relief to socially and economically disadvantaged or rural-based technology businesses across the State. The RUBRIC Program will focus on providing funding to early stage companies that are impacted by the pandemic, including difficulties attracting or retaining employees or customers, and have the highest barriers to traditional financing.

TEDCO anticipates that applications for funding will open in early February 2021 and expects that the review process will take 30 to 60 days. Applications will be scored rather than first come, first

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served, including an evaluation of the impact of COVID-19 on the company and how the company plans to use the funds to address the impact. Awards will be grants of up to \$200,000 but will be paid back if the company generates sufficient revenues in the subsequent five years. TEDCO expects to use the funds to support between 20 and 40 companies, in addition to providing advisory and other support services.

Fiscal 2022 Overview of Agency Spending

While TEDCO’s budget is provided as a grant, the corporation provides annual budget detail. **Exhibit 1** shows TEDCO’s fiscal 2020 actual expenses through the fiscal 2022 allowance. The corporation does not report personnel data through the State budget system because its employees are not considered State employees. However, TEDCO reports that it has 21 full-time positions and 3 part-time positions.

Exhibit 1
Proposed Budget
Maryland Technology Development Corporation
Fiscal 2020-2022 Allowance
(\$ in Thousands)

		<u>2020</u>	<u>Working</u> <u>2021</u>	<u>Allowance</u> <u>2022</u>	<u>Change</u>
General Funds	Program Description				
Programs					
Stem Cell Research Fund	The Maryland Stem Cell Research Commission makes recommendations about grant awards to support research and development at research institutions or private companies.	\$8,200	\$8,200	\$7,200	-\$1,000
Maryland Innovation Initiative	Combines the technology transfer expertise of TEDCO and the expertise of the State’s research universities to encourage the formation of startup companies from university research. TEDCO and participating universities provide an additional \$800,000 in nonbudgeted funds annually.	4,800	4,800	4,800	0
Life Science Investment Fund	Investments in companies developing products addressing human health that require approval from the U.S. Food and Drug Administration for commercialization.	1,001	1,001	1,001	0

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		<u>2020</u>	<u>Working 2021</u>	<u>Allowance 2022</u>	<u>Change</u>
General Funds Programs	Program Description				
Builder Fund	Pre-seed stage investment program for businesses run by socially or economically disadvantaged entrepreneurs; discussed in Key Observation 1 of this analysis.	1,000	1,000	1,000	0
Gap Investment Fund	Investments intended to fill the gap between TEDCO's seed investment and venture capital programs.	1,000	1,000	1,000	0
Cybersecurity Investment Fund	Awards of up to \$200,000 to support projects that advance cybersecurity technology toward commercialization.	900	900	900	0
Maryland Technology Commercialization Fund	Awards of up to \$200,000 to provide seed funding to early-stage companies to develop and commercialize technology products.	600	600	600	0
Rural Business Innovation Initiative	Provides technical and business assistance to small and early-stage technology-based companies located in rural Maryland.	500	500	500	0
Maryland Industrial Partnership Program	Provides matching funds for university-based research projects that help companies develop new products with the goal of accelerating commercialization.	300	300	300	0
Subtotal		\$18,301	\$18,301	\$17,301	-\$1,000
Operations					
Salaries and Wages		\$2,005	\$2,013	\$1,825	-\$188
Contractual Services		161	150	200	50
Equipment		7	10	10	0
Restricted Funds		250	0	0	0
Subtotal		\$2,423	\$2,173	\$2,035	-\$138
General Fund Total		\$20,724	\$20,474	\$19,336	-\$1,138
Special Funds					
Enterprise Fund	Also known as the Maryland Venture Fund. Provides capital through equity and convertible debt purchases for startup companies developing innovative technologies.	\$3,577	\$4,200	\$6,500	\$2,300
Enterprise Fund Administration		1,685	1,210	1,226	16
Special Fund Total		\$5,261	\$5,410	\$7,726	\$2,316
Grand Total		\$25,985	\$25,884	\$27,062	\$1,178

TEDCO: Maryland Technology Development Corporation

Source: Maryland Technology Development Corporation

Maryland Stem Cell Research Program

The fiscal 2022 allowance includes \$7.2 million for the Maryland Stem Cell Research Fund (MSCRF), a decrease of \$1 million from funding in prior years. TEDCO notes that even prior to the reduction, the program already has demand that exceeds the available funding, and the COVID-19 pandemic has increased demand for program funds due to the applicability of stem cell therapy to potentially treat COVID-19 and related complications. For example, the MSCRF recently funded a project at the University of Maryland School of Medicine related to stem cell therapy for COVID-19 patients. The MSCRF also funds research to address heart disease, cancer, stroke, respiratory disease, diabetes, Alzheimer’s disease, influenza, and pneumonia, among other diseases. TEDCO advises that as a result of the reduction, the MSCRF may need to fund fewer projects, provide less funding per award, and/or eliminate subprograms.

Maryland Venture Fund

Funding for MVF investments increases by \$2.3 million in special funds to \$6.5 million in the fiscal 2022 allowance. TEDCO notes that \$1 million of this funding is allocated for existing commitments to companies already in the MVF portfolio, while \$5.5 million is for new investments. Due to issues uncovered in a 2019 audit, the MVF had ceased making investments in July 2019 and resumed in January 2020 but did not open MVF applications to new companies outside MVF’s portfolio until November 2020. TEDCO anticipates increased demand in fiscal 2022 due to the extended freeze in investments. The allowance is only slightly higher than historical spending levels prior to the freeze of \$6 million in each of fiscal 2018 and 2019.

Reserve Fund

TEDCO provides detailed information on its Reserve Fund in order to provide the budget committees with a more systemic, consistent, and transparent view of the corporation’s spending. **Exhibit 2** shows the revenues and expenditures of the Reserve Fund from fiscal 2018 through the fiscal 2022 budget. TEDCO spent \$1.7 million of reserve funds to supplement its State-funded expenditures, and plans to use \$1.6 million in each of fiscal 2021 and 2022. The fund balance includes the market value of securities as well as funds restricted to certain programs, with unrestricted funds totaling \$2.9 million at the close of fiscal 2020. TEDCO considered adopting a formal policy for use of the reserve funds but concluded that TEDCO’s board exerted adequate control over these expenditures. Instead, TEDCO identified several guiding principles for the use of reserve funds, including managing risk exposure from TEDCO’s investments, transparent reporting on the fund to TEDCO’s board and Finance Committee, and strategic use of funds for pilot initiatives and supplementing State-funded programs.

Exhibit 2
TEDCO Reserve Fund
Fiscal 2018-2022 Est.
(\$ in Thousands)

	2018	2019	2020	2021	2022
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>	<u>Est.</u>
Beginning Balance	\$10,312	\$12,635	\$15,619	\$17,725	\$17,720
Revenue					
Cash					
MII Program – University Contributions	\$800	\$800	\$800	\$800	\$800
Repayments from Seed Grants/Investments	469	1,388	305	300	300
Event Income (Registration, Sponsorship, etc.)	88	148	135	0	150
Licensing Agreement Royalty (MII)	-8	6	100	0	0
Interest and Dividend Income	126	197	165	100	100
Incubator Capital Note Repayment	425	25	25	25	25
Prior Year Awards Rescinded	0	1,174	584	200	200
Miscellaneous	0	394	280	0	0
Non-cash					
Increase Value of Investments	\$2,721	\$2,582	\$530	\$0	\$0
Increase Value of Notes Receivable	4,803	-2,142	532	0	0
Interest on Convertible Notes	1,021	901	389	150	150
Total Revenue	\$10,444	\$5,473	\$3,845	\$1,575	\$1,725
Total Available Funds	\$20,756	\$18,108	\$19,464	\$19,300	\$19,445
Expenditures/Encumbrances					
MII Program (Site Miner Costs and Awards)	\$1,662	\$1,209	\$800	\$800	\$800
Event Expense (Expo and Stem Cell Symposium)	296	232	196	230	230
Gap Investment Fund (Awards)	1,000	0	0	0	0
Technology Commercialization Funds (Awards)	1,400	0	0	0	0
Stem Cell Awards (Prior Rescinded and Rewarded)	1,107	3	220	200	200
Minority Business Pre-Seed Fund (MBPSF)	120	0	0	0	0
Builder Fund (Previously MBPSF)	0	725	0	0	0
Executive Exchange (Mentoring Services)	339	285	377	250	250
Incubation Challenge (Pilot Initiative)	750	0	0	0	0
IT Reconfiguration (New CRM and New Website)	116	0	0	0	0
Administrative Support	1,331	35	146	100	100
Total Expenditures/Encumbrances	\$8,121	\$2,490	\$1,739	\$1,580	\$1,580
Ending Balance	\$12,635	\$15,619	\$17,725	\$17,720	\$17,865

CRM: customer relationship management

IT: information technology

MII: Maryland Innovation Initiative

TEDCO: Maryland Technology Development Corporation

Source: Maryland Technology Development Corporation

Key Observations

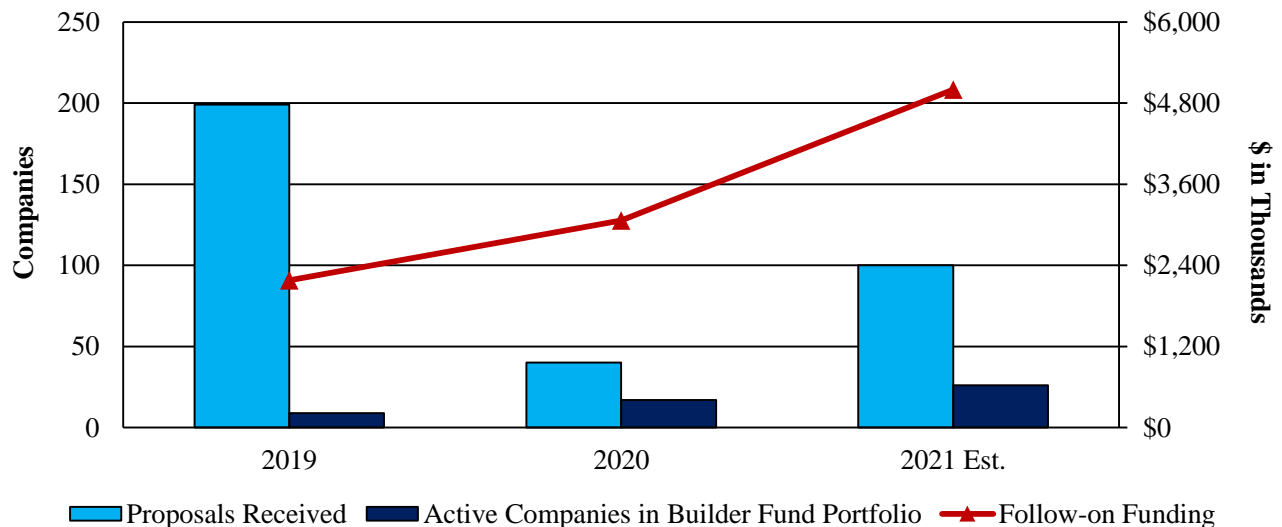
1. Builder Fund Portfolio Grows to 17 Companies

The Builder Fund program provides both early stage investments and executive management services and mentorship to companies run by individuals with a socially or economically disadvantaged background that hinders access to traditional forms of capital. TEDCO started the program in fiscal 2018 using its own nonbudgeted reserve funds. The program first received State funding in fiscal 2020, with \$1 million in general funds in each fiscal year from 2020 through 2022.

Program Growth

Participating companies take part in a 24-week program that includes executive support, mentorship, and networking opportunities in the first 12 weeks, followed by 12 weeks of continued operations support. The program is designed to better position the companies to obtain follow-on investments. As shown in **Exhibit 3**, the number of active companies in the Builder program has grown to 17 in fiscal 2020 and an estimated 26 in fiscal 2021, and follow-on funding for these companies totaled a little over \$3 million in fiscal 2020. These active companies do not include the 5 additional companies funded in fiscal 2018 through the precursor to the Builder Fund, known as the Minority Business Pre-seed Fund. Although applications for the program have declined significantly since fiscal 2019 due to TEDCO revising application criteria, applications still far exceed the available resources.

Exhibit 3
Builder Fund Performance Measures
 Fiscal 2019-2021 Est.



Source: Governor’s Fiscal 2022 Budget Books

Program Awards and Other Expenses

The program and its predecessor have made awards to 22 companies so far, as shown in **Exhibit 4**. Of the 22 companies, 20 are minority-led, and 11 are women-led. The companies receive up to \$50,000 over two tranches – half at inception into the program and the remainder after the achievement of certain milestones. Most companies receive both tranches: of the 22 companies, 15 have already received the second tranche; 1 is currently working on finalizing the second tranche; 2 have underperformed but a second tranche is still possible; and 3 have not met milestones or no longer meet program requirements. ClearMask, which produces personal protective equipment, received one larger investment instead of receiving tranches due to the need to scale up production to meet demand during the early stages of the pandemic. In addition to awards, the \$1 million annual appropriation is also used for support services for companies, such as mentorship and loaned executives, as well as program administration. In fiscal 2020, \$450,000 was used to make investments, while \$341,000 funded support services, and \$208,000 was used for administrative and other expenses. **TEDCO should comment on the use of funds, including the reason less than 50% of appropriated funds were awarded to companies.**

Exhibit 4
Builder Fund Awards
Fiscal 2018-2020

<u>Company</u>	<u>Award Amount</u>	<u>County</u>
Fiscal 2018		
Pay Your Tuition Funds	\$20,000	Montgomery
Implicit Solutions	20,000	Prince George's
Game ChangeHer*	20,000	Howard
Emagine Technologies	20,000	Prince George's
Kweli TV Inc	20,000	Montgomery
PyroDex LLC	20,000	Baltimore City
Elite Gaming Live*	20,000	Howard
<i>Fiscal 2018 Subtotal</i>	<i>\$140,000</i>	
Fiscal 2019		
Remodelmate*	20,000	Prince George's
eMedical Sentry	50,000	Montgomery
Game ChangeHer*	50,000	Howard
EduMD, LLC (MileMarker)	50,000	Baltimore City
Novel Microdevices LLC	50,000	Anne Arundel
ProTrakr	50,000	Montgomery
Azabu Distilling Co.	50,000	Montgomery
Scholarme	50,000	Howard
Remodelmate*	50,000	Prince George's
Elite Gaming Live*	50,000	Howard
<i>Fiscal 2019 Subtotal</i>	<i>\$470,000</i>	
Fiscal 2020		
ClearMask LLC	100,000	Baltimore City
JuneBrain Inc	50,000	Montgomery
IPGen, Inc.	50,000	Prince George's
PediaMetrix Inc	50,000	Montgomery
Emergency Medical Innovation LLC	50,000	Howard
Pet Connect	50,000	Montgomery
CarrTech LLC	50,000	Frederick
Person Clinic	50,000	Montgomery
<i>Fiscal 2020 Subtotal</i>	<i>\$450,000</i>	
Total	\$1,060,000	

Note: Includes companies funded through the Minority Business Pre-seed Fund.

* indicates a company that received separate awards under both the Minority Business Pre-seed Fund and the Builder Fund.

Source: Maryland Technology Development Corporation

Operating Budget Recommended Actions

	<u>Amount Reduction</u>	
1. Maryland Technology Development Corporation (TEDCO) unintentionally received restricted funds in fiscal 2020 that were not reverted. This action increases TEDCO's fiscal 2021 negative general fund deficiency appropriation by the same amount.	\$ 250,000	GF
Total Reductions to Fiscal 2021 Deficiency	\$ 250,000	

Appendix 1
Object/Fund Difference Report
Maryland Technology Development Corporation

<u>Object/Fund</u>	<u>FY 20</u> <u>Actual</u>	<u>FY 21</u> <u>Working</u> <u>Appropriation</u>	<u>FY 22</u> <u>Allowance</u>	<u>FY 21 - FY 22</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Objects					
08 Contractual Services	\$ 0	\$ 10,654	\$ 11,463	\$ 809	7.6%
12 Grants, Subsidies, and Contributions	25,985,582	35,873,792	27,050,162	-8,823,630	-24.6%
Total Objects	\$ 25,985,582	\$ 35,884,446	\$ 27,061,625	-\$ 8,822,821	-24.6%
Funds					
01 General Fund	\$ 20,724,480	\$ 30,474,480	\$ 19,335,816	-\$ 11,138,664	-36.6%
03 Special Fund	5,261,102	5,409,966	7,725,809	2,315,843	42.8%
Total Funds	\$ 25,985,582	\$ 35,884,446	\$ 27,061,625	-\$ 8,822,821	-24.6%

Note: The fiscal 2021 appropriation does not include deficiencies.