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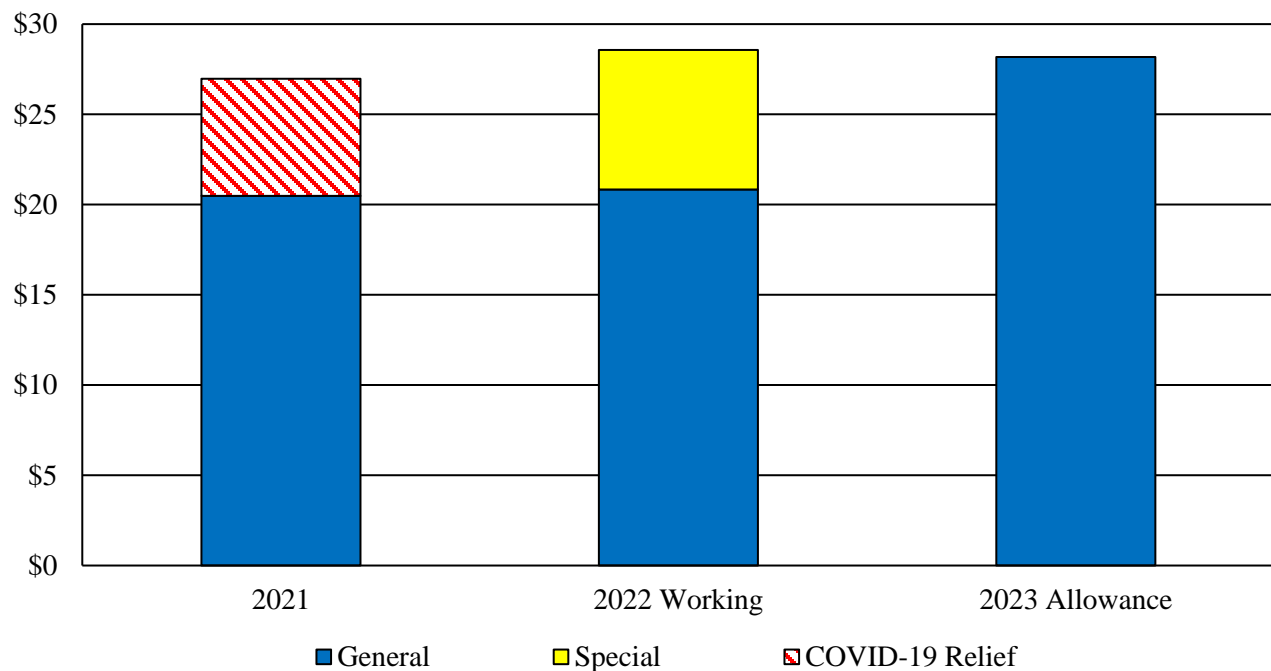
Maryland Technology Development Corporation

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) from the Department of Commerce (Commerce).

Operating Budget Summary

Fiscal 2023 Budget Decreases \$376,000, or 1.3%, to \$28.2 Million
(\$ in Millions)



Note: COVID-19 relief funding includes federal funds from the American Rescue Plan Act as well as special funds from the Rainy Day Fund.

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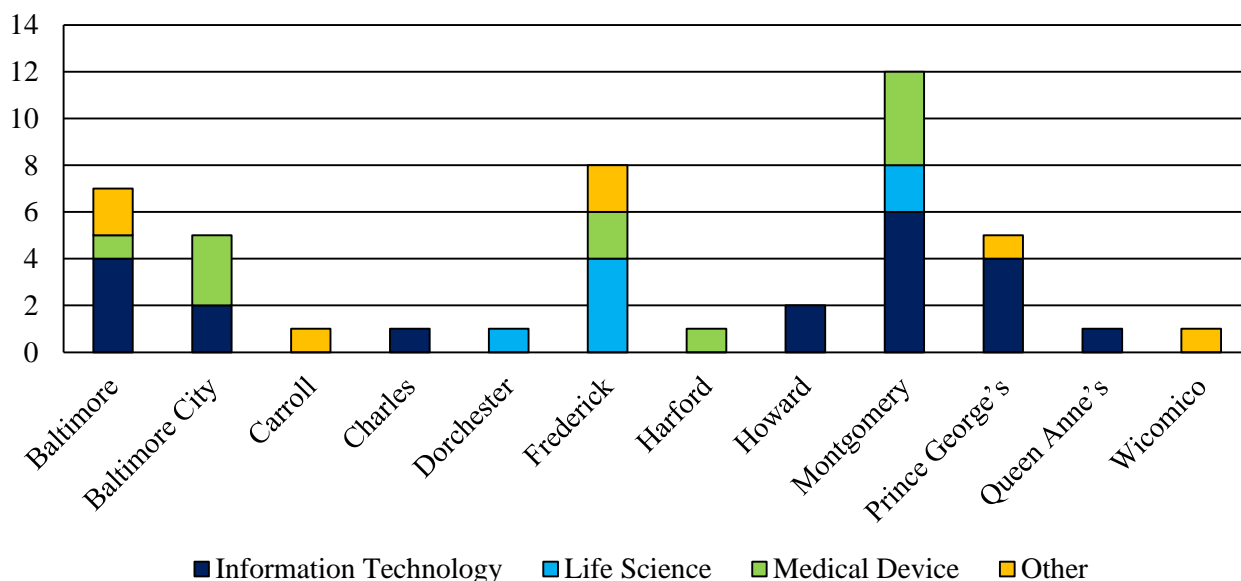
- General funds in the fiscal 2023 allowance increase by \$7.4 million, or 35%, compared to the fiscal 2022 working appropriation, primarily due to a \$4.0 million increase for the Builder Program. Chapter 415 of 2021 mandated \$5.0 million for the program in fiscal 2023, while the program has received \$1.0 million in general funds annually since fiscal 2020. Other general fund increases include \$1.8 million for the Maryland Stem Cell Research Fund and \$750,000 for the newly established Inclusion Fund resulting from Chapter 180 of 2021.
- The fiscal 2023 allowance does not include any special funds, as TEDCO invested the last of the funds raised through the InvestMaryland tax credit auction in fiscal 2020. TEDCO is expected to cancel the \$7.7 million in special funds in the fiscal 2022 working appropriation during the fiscal 2022 closeout process. TEDCO will continue to reinvest returns through the MVF, although MVF expenditures will no longer be reflected in the State budget.

Fiscal 2021

TEDCO provided relief in fiscal 2021 to businesses impacted by the COVID-19 pandemic through two programs: the Rural and Underserved Business Recovery from Impact of COVID-19 (RUBRIC) program; and the Agriculture and Rural Rebuild (ARR) Challenge.

The RUBRIC program was funded using \$5 million in special funds from the Rainy Day Fund and provided grants to early stage companies with the highest barriers to traditional financing that were impacted by the pandemic, including difficulties attracting or retaining employees or customers. TEDCO announced the RUBRIC awards in July 2021 to 45 companies, including 16 rural companies and 36 socially or economically disadvantaged companies. Nearly 30% of award recipients were Black-owned businesses, and nearly 30% were women-owned businesses. Funding was awarded competitively and provided in two tranches of \$50,000 each, and 43 of the 45 businesses have claimed their second tranche to date. TEDCO is working with the remaining two businesses and expects both will receive their second tranche. **Exhibit 1** shows RUBRIC program recipients by industry and jurisdiction. TEDCO used the remaining \$500,000 from the allocation for administrative expenses (\$245,000) as well as for an Urban Business Innovation Initiative (UBII) pilot program (\$255,000) to provide mentoring services to 21 businesses in Baltimore City and Prince George's County recovering from the pandemic. TEDCO plans to provide general funds from their operating budget grant for the UBII program beginning in fiscal 2024.

Exhibit 1
RUBRIC Recipients by Industry and Jurisdiction
Fiscal 2021



RUBRIC: Rural and Underserved Business Recovery from Impact of COVID-19

Source: Maryland Technology Development Corporation

Chapter 39 of 2021 (the RELIEF Act) provided \$1.5 million for TEDCO's ARR Challenge. TEDCO awarded grants of up to \$200,000 across two tranches to seven businesses in the engineering, biotechnology, and agriculture industries in Baltimore, Carroll, Harford, Howard, Montgomery, and Wicomico counties. The RELIEF Act also provided \$2 million to the Maryland Agriculture and Resource-Based Industry Development Corporation for grants to rural and agricultural businesses. These RELIEF Act allocations were ultimately funded with federal funds from the American Rescue Plan Act.

Fiscal 2023 Allowance

While TEDCO's budget is provided as a grant, the corporation provides annual budget detail. **Exhibit 2** shows TEDCO's fiscal 2021 actual expenses through the fiscal 2023 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 28 full-time positions and 2 part-time positions, which represents an increase of 7 full-time personnel and a decrease of 1 part-time position compared to the prior year. The fiscal 2023 allowance includes an increase of \$300,000 in general funds for salaries, contractual services for information technology, and other operating costs such as outreach, auditing fees, and training.

Exhibit 2
Proposed Budget
Maryland Technology Development Corporation
Fiscal 2021-2023 Allowance
(\$ in Thousands)

	<u>2021</u>	<u>Working 2022</u>	<u>Allowance 2023</u>	<u>Change</u>
General Funds				
Program				
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. Program demand consistently exceeds available funds, and the increased funding in fiscal 2023 will allow the commission to both fund more projects and increase the award amount per project across its six subprograms.	\$8,200	\$8,200	\$10,000	\$1,800
Maryland Innovation Initiative and Pilot: 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. The five participating universities provide an additional \$800,000 in nonbudgeted funds annually, and each of the two pilot program universities will contribute an additional \$50,000 annually.	4,800	5,300	5,800	500
Builder Fund: Pre-seed stage investment program for businesses run by socially or economically disadvantaged entrepreneurs, discussed in Key Observation 2 of this analysis.	1,000	1,000	5,000	4,000
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
Inclusion Fund: Provides follow-on seed funding for companies no longer meeting economically disadvantaged ownership requirements for the Builder Fund due to company growth.	0	0	750	750
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.	600	600	600	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.	800	800	800	0

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	<u>2021</u>	<u>Working 2022</u>	<u>Allowance 2023</u>	<u>Change</u>
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	\$18,100	\$18,600	\$25,650	\$7,050
Operations				
Salaries and Wages	\$1,960	\$1,876	\$1,976	\$100
Contractual Services	70	38	68	30
Other	344	322	492	170
Subtotal	\$2,374	\$2,236	\$2,536	\$300
General Fund Total	\$20,474	\$20,836	\$28,186	\$7,350
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.	\$0	\$6,500	\$0	-\$6,500
Enterprise Fund Administration	0	1,226	0	-1,226
Special Fund Total	\$0	\$7,726	\$0	-\$7,726
COVID-19 Relief				
RUBRIC Program: Rainy Day funds provided as grants to socially and economically disadvantaged or rural companies impacted by the COVID-19 pandemic.	\$5,000	\$0	\$0	\$0
Agricultural and Rural Rebuild Challenge: ARPA federal funds provided through the RELIEF Act for grants to rural and agricultural businesses.	1,500	0	0	0
COVID-19 Relief Total	\$6,500	\$0	\$0	\$0
Grand Total	\$26,974	\$28,562	\$28,186	-\$376

ARPA: American Rescue Plan Act

RUBRIC: Rural and Underserved Business Recovery from Impact of COVID-19

TEDCO: Maryland Technology Development Corporation

Source: Maryland Technology Development Corporation

Inclusion Fund

Chapter 180 established the Inclusion Fund in TEDCO to provide seed investments to businesses that are at least 30% owned by individuals who demonstrate economic disadvantage. While the Builder Fund is designed to provide pre-seed investments, the Inclusion Fund provides follow-on funding for companies that would qualify under the Builder program. While the Builder program requires combined ownership of at least 50% by individuals who demonstrate economic disadvantage, the lower 30% threshold for the Inclusion Fund allows companies to have more flexibility as they grow. The fiscal 2023 allowance includes \$750,000 for the Inclusion Fund in its first year of funding. TEDCO anticipates using these funds to make two or three investments of approximately \$200,000 to \$250,000. Award recipients will also receive mentoring services provided by TEDCO.

Maryland Innovation Initiative

The Maryland Innovation Initiative (MII), created by Chapter 450 of 2012, is designed to combine the technology transfer expertise of TEDCO and the expertise of the State's research universities to create opportunities for commercialization. Five universities are eligible recipients of funding from the main MII program: Johns Hopkins University; the University of Maryland, Baltimore Campus; the University of Maryland, College Park Campus, Morgan State University; and the University of Maryland Baltimore County. These universities contribute either \$100,000 or \$200,000 in matching funds annually, depending on the university. The fiscal 2023 allowance includes \$5.3 million in general funds for the main MII program, which is level funded from the fiscal 2022 working appropriation. In prior years, MII typically received \$4.8 million in general funds annually, but Supplemental Budget No. 5 to the fiscal 2022 budget provided an additional \$500,000 in order to support more awards under the program.

Chapter 697 of 2021 established an MII University Partnership Pilot Program to expand eligibility to two additional universities: Bowie State University (BSU) and Frostburg State University (FSU). Each university is required to contribute \$50,000 in matching funds annually in fiscal 2023 and 2024, when the program sunsets. The fiscal 2023 allowance includes the mandated \$500,000 in general funds for the pilot program. TEDCO is working with BSU and FSU to achieve each university's vision for participation in the program. The BSU program under development will provide entrepreneurship training, technology development, and industry engagement for students and faculty. The FSU program will focus on industry and regional engagement. The pilot program will also connect BSU and FSU with the resources available at the major research universities that participate in the main MII program.

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 3** shows the revenues and expenditures of the Reserve Fund from fiscal 2020 through the fiscal 2023 budget. TEDCO spent \$1.8 million of reserve funds to supplement its State-funded expenditures in fiscal 2021 and plans to use \$1.7 million in fiscal 2022 and \$2.0 million in fiscal 2023. The majority of the fund balance represents the market value of securities as well as funds restricted to certain programs.

Exhibit 3
TEDCO Reserve Fund
Fiscal 2020-2023 Est.
(\$ in Thousands)

	2020	2021	2022	2023
	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>	<u>Est.</u>
Beginning Balance	\$15,619	\$17,725	\$22,997	\$22,872
Revenue				
Cash				
MII Program – University Contributions	\$800	\$800	\$800	\$900
Repayments from Seed Grants/Investments	305	1,100	300	300
Event Income (Registration, Sponsorship, etc.)	135	1	0	100
Licensing Agreement Royalty (MII)	100	0	0	0
Interest and Dividend Income	165	135	100	100
Incubator Capital Note Repayment	25	25	25	25
Prior Year Awards Rescinded	584	641	200	200
Miscellaneous	280	295	0	0
Non-Cash				
Increase Value of Investments	530	1,640	0	0
Increase Value of Notes Receivable	532	1,656	0	0
Interest on Convertible Notes	389	792	150	150
Total Revenue	\$3,845	\$7,084	\$1,575	\$1,775
Total Available Funds	\$19,464	\$24,809	\$24,572	\$24,647
Expenditures/Encumbrances				
MII Program (Site Miner Costs and Awards)	\$800	\$800	\$800	\$900
Event Expense (Expo and Stem Cell Symposium)	196	11	0	200
Stem Cell Awards (Prior Rescinded and Reawarded)	220	498	200	200
Executive Exchange (Mentoring Services)	377	503	500	500
Administrative Support	146	0	200	200
Total Expenditures/Encumbrances	\$1,739	\$1,812	\$1,700	\$2,000
Ending Balance	\$17,725	\$22,997	\$22,872	\$22,647

MII: Maryland Innovation Initiative

TEDCO: Maryland Technology Development Corporation

Source: Maryland Technology Development Corporation

Key Observations

1. MVF Expenditures No Longer Reflected in State Budget

The MVF (formerly known as the Enterprise Fund) was transferred from Commerce to TEDCO in fiscal 2016. The MVF provides capital through equity and convertible debt purchases for startup companies that are developing innovative technologies. Beginning in fiscal 2013, this program also became the means for the implementation of the InvestMaryland program, which was funded through an auction of a tax credit against the premium tax for insurance companies. A portion of these funds is invested directly by TEDCO, and a portion is invested by private venture capital funds on behalf of the State. The last of the funds raised through the InvestMaryland tax credit auction were used in fiscal 2020. For the direct investment component of the program, TEDCO retains and reinvests any program earnings. For the venture capital limited partners portion, any returns are remitted to the General Fund, including a total of \$29.4 million as of the close of fiscal 2021.

As all of the State's original investment in the MVF has been expended, the Department of Budget and Management determined that TEDCO no longer requires an appropriation for funds reinvested through the MVF. To this end, TEDCO canceled the entirety of its special fund appropriation for the MVF during the fiscal 2021 closeout and is expected to do the same for its fiscal 2022 appropriation of \$7.7 million. The fiscal 2023 allowance does not include a special fund appropriation for the MVF. However, TEDCO has provided the anticipated revenues and expenditures for the fund, as shown in **Exhibit 4**.

Exhibit 4
Maryland Venture Fund
Fiscal 2020-2023 Est.
(\$ in Thousands)

	<u>2020</u> <u>Actual</u>	<u>2021</u> <u>Actual</u>	<u>2022</u> <u>Est.</u>	<u>2023</u> <u>Est.</u>
Beginning Balance	\$7,360	\$5,235	\$10,959	\$7,259
Revenue				
InvestMaryland Revenue	\$4,419	\$3,656	\$1,500	\$1,500
Equity Investment Earnings	-2,206	6,616	1,000	1,000
Interest Income	377	83	50	5
Loan Repayments	528	1,795	800	50
Total Revenue	\$3,118	\$12,150	\$3,350	\$2,555
Total Available Funds	\$10,478	\$17,385	\$14,309	\$9,814

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	<u>2020</u> <u>Actual</u>	<u>2021</u> <u>Actual</u>	<u>2022</u> <u>Est.</u>	<u>2023</u> <u>Est.</u>
Expenditures/Encumbrances				
Enterprise Investments/Grants Encumbrance	\$750	\$3,342	\$3,000	\$4,000
InvestMaryland – Venture Capital Investments	2,851	1,405	2,000	1,000
InvestMaryland – Direct Investments	0	200	500	500
SSBCI Activity	474	0	0	0
Operating Expenses	829	1,231	1,300	1,540
Indirect Expenses	339	248	250	260
Total Expenditures/Encumbrances	\$5,243	\$6,426	\$7,050	\$7,300
Ending Balance	\$5,235	\$10,959	\$7,259	\$2,514

SSBCI: State Small Business Credit Initiative

Source: Governor’s Fiscal 2023 Budget Books; Maryland Technology Development Corporation

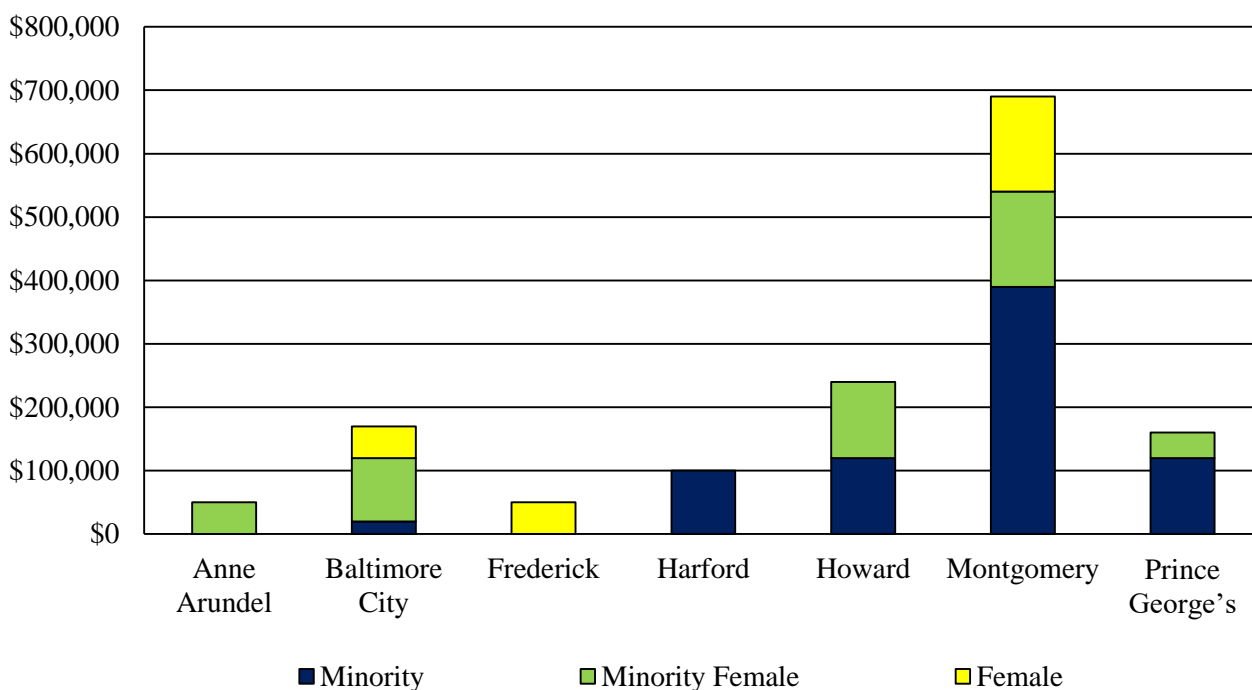
2. Builder Fund Set to Expand Significantly in Fiscal 2023

The Builder Fund 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 and received \$1 million in general funds in each fiscal year from 2020 through 2022. Chapter 415 mandates increasing appropriations for the program over time, including \$5 million in fiscal 2023, \$6.2 million in fiscal 2024, and \$7.5 million annually beginning in fiscal 2025.

TEDCO advises that 80% of the \$5 million fiscal 2023 allowance for the Builder program is expected to be used for awards, while 10% will provide support services to participating companies, such as mentorship and loaned executives, and 10% will fund TEDCO’s administrative expenses for the program. To prepare for the increase in funding, TEDCO is hiring additional staff and conducting further outreach and marketing efforts, including in Latino communities and at Historically Black Colleges and Universities.

From fiscal 2018 through 2021, TEDCO made awards to 25 companies in seven jurisdictions through the Builder program and its predecessor, known as the Minority Pre-seed Business Fund. **Exhibit 5** provides information on the distribution of these awards by jurisdiction and ownership category.

Exhibit 5
Builder Fund Awards
Fiscal 2018-2021



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

Source: Maryland Technology Development Corporation

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. Prior to fiscal 2021, companies in the Builder program generally received \$50,000 total over two tranches: half at inception into the program; and the remainder after the achievement of certain milestones. TEDCO elected to make larger awards to fewer companies in fiscal 2021, making three awards totaling \$400,000, compared to eight awards totaling \$450,000 in fiscal 2020. TEDCO notes that the higher award level allows companies to spend more of their energy on technology development and identifying customers and less on continued fundraising.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
Object/Fund Difference Report
Maryland Technology Development Corporation

<u>Object/Fund</u>	<u>FY 21 Actual</u>	<u>FY 22 Working Appropriation</u>	<u>FY 23 Allowance</u>	<u>FY 22 - FY 23 Amount Change</u>	<u>Percent Change</u>
Objects					
08 Contractual Services	\$ 0	\$ 11,463	\$ 0	-\$ 11,463	-100.0%
12 Grants, Subsidies, and Contributions	26,974,480	28,550,162	28,185,816	-364,346	-1.3%
Total Objects	\$ 26,974,480	\$ 28,561,625	\$ 28,185,816	-\$ 375,809	-1.3%
Funds					
01 General Fund	\$ 20,474,480	\$ 20,835,816	\$ 28,185,816	\$ 7,350,000	35.3%
03 Special Fund	5,000,000	7,725,809	0	-7,725,809	-100.0%
05 Federal Fund	1,500,000	0	0	0	0.0%
Total Funds	\$ 26,974,480	\$ 28,561,625	\$ 28,185,816	-\$ 375,809	-1.3%