

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1161
 Ways and Means

(Delegate Qi, *et al.*)

Maryland Small Business Innovation Research and Technology Transfer
 Incentive Program

This bill establishes the Maryland Small Business Innovation Research and Technology Transfer (SBIR/STTR) Incentive Program and Matching Fund administered by the Department of Commerce (Commerce). Subject to specified conditions, an eligible small business may apply for a matching grant equal to 25% of a SBIR/STTR award, up to \$25,000 for a Phase I award and up to \$75,000 for a Phase II award. Every three years, the Secretary of Commerce must review and evaluate the program, and may submit recommendations to the Governor and General Assembly on the program’s continued effectiveness. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund expenditures increase by \$1.7 million annually beginning in FY 2020, under the assumptions discussed below. Special fund revenues and expenditures increase correspondingly.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
GF Expenditure	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
SF Expenditure	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
Net Effect	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)

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

Local Effect: Counties with comparable programs can coordinate with Commerce with existing resources. Local government revenues are not affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The purpose of the program is to foster job creation and economic development in the State by:

- promoting the commercialization of research conducted by small businesses in the State;
- facilitating the transfer of technology from small businesses; and
- encouraging small businesses to apply for SBIR/STTR grants.

The program must coordinate with comparable county programs to evaluate applications and to provide assistance to eligible businesses under the program.

The Maryland SBIR/STTR Incentive Matching Fund is established as a special, nonlapsing fund, administered by Commerce. The fund consists of (1) appropriations as provided in the State budget; (2) money recaptured from businesses that fail to fulfill the terms and conditions of a grant made under the program; (3) investment earnings of the fund; and (4) any other money from any other source accepted for the benefit of the fund. Any interest earned on money in the fund remains in the fund. The fund may be used only to award matching grants under the program and to pay the costs necessary to administer the program.

To qualify for a grant under the program, a small business must meet the following requirements:

- maintain its principal place of business in the State;
- have received a SBIR/STTR Phase I or Phase II grant in the current fiscal year; and
- conduct at least 51% of its research and development operations at a physical location in the State.

Subject to the above eligibility requirements, specified application requirements, and the availability of funding for the program, an eligible small business may apply for a matching grant equal to 25% of a SBIR/STTR award, up to \$25,000 for a Phase I award and up to \$75,000 for a Phase II award. Commerce must award matching grants on a first-come, first-served basis.

A grant recipient that fails to fulfill the eligibility and maintenance requirements of the program, or of a comparable county program that supports the recipient, may be required to return all or part of the matching grant received under the program. The entirety of a matching grant must be returned to Commerce if the recipient does not remain in the State for at least two years after receiving the grant payment.

A small business may not receive more than one grant per fiscal year or more than five matching grants in total.

Current Law/Background: The U.S. Small Business Administration Office of Technology administers the SBIR Program and the STTR Program. Through these two competitive programs, small, high-tech, innovative businesses are a significant part of the federal government's research and development efforts. Phase I awards are made to evaluate the feasibility and merit of a scientific or technical idea. Phase II awards are granted to expand on the results of a Phase I concept.

Commerce advises that, based on its analysis of grant awards to Maryland businesses over the past five federal fiscal years, a typical (average) Phase I grant is \$179,000, and a typical (average) Phase II grant is \$1.0 million. During that time, there have been an average of 177 Phase I awards and 84 Phase II awards to Maryland businesses each year.

In March 2014, the President of the Senate and the Speaker of the House of Delegates established and appointed the Maryland Economic Development and Business Climate Commission to focus on the State's economic development structure and incentive programs and make recommendations to the Presiding Officers. Testimony before the commission indicated that SBIR awardees are often start-up businesses that encounter difficulty in raising necessary capital beyond the federal grant itself and suggested that State support of these businesses would lead to their successful commercialization and sustainability. The commission's interim [report](#) recommended that Maryland create a program in the Maryland Technology Development Corporation to provide matching grants for SBIR awardees.

Montgomery County Program

According to Commerce, Montgomery County recently established a comparable SBIR/STTR matching grant program, with identical award amounts. The program is funded at \$650,000 in fiscal 2019, and is focused on biotechnology. Information on Montgomery County's program can be found on the county's [website](#).

State Fiscal Effect: The bill does not specify or mandate a level of funding for the program. Based on five-year average SBIR/STTR award amounts, this analysis assumes that matching grants awarded under the bill are generally capped at their maximum levels of \$25,000 for Phase I and \$75,000 for Phase II. Due to the bill's other existing limitations on grant eligibility, it is unclear how many SBIR/STTR award recipients would ultimately be eligible for matching grants in a given year.

This analysis assumes two Phase I matching grants (\$25,000 each) and one Phase II matching grant (\$75,000) are issued by Commerce each month, totaling about \$1.5 million annually. Based on average data, this provides a grant to about one out of every seven or eight businesses that have received a Phase I or Phase II award each year.

Ultimately, funding for the program is subject to funds being provided in the State budget. For context, if the average number of Maryland SBIR/STTR award recipients were eligible for and received a matching grant, the total cost would exceed \$10.0 million annually.

Commerce advises that it requires two staff to administer the program. This analysis assumes that sufficient general funds are appropriated to the Maryland SBIR/STTR Incentive Matching Fund each year for \$1.5 million in matching grants and Commerce's administrative expenses.

Under these assumptions, general fund expenditures increase by \$1,684,961 in fiscal 2020, which accounts for the bill's July 1, 2019 effective date. This estimate reflects the cost of hiring one finance specialist and one portfolio specialist to administer and track the matching grants issued under the program. It includes salaries, fringe benefits, one-time start-up costs, ongoing operating expenses, and \$1.5 million in matching grants.

Positions	2.0
Salaries and Fringe Benefits	\$173,931
Matching Grants	1,500,000
Other Operating Expenses	<u>11,030</u>
Total FY 2020 State Expenditures	\$1,684,961

Future year expenditures reflect annual salary increases and employee turnover, ongoing operating expenses, and continued matching grant funding.

Special fund revenues and expenditures increase correspondingly for Commerce staff and administrative costs and to issue matching grants to eligible businesses under the program.

Small Business Effect: Small businesses that receive matching grants under the program benefit from the additional funding, which may lead to further research and development grants under the SBIR/STTR programs or other sources.

Additional Information

Prior Introductions: None.

Cross File: SB 574 (Senator Feldman) - Finance.

Information Source(s): Department of Commerce; Montgomery County; Department of Legislative Services

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