

T50T01
Maryland Technology Development Corporation

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04 Change</u>	<u>FY 05</u>	<u>FY 04-05 Change</u>
Grants	0	2,682	4,000	\$4,000	5,750	1,750
General Funds	0	2,682	4,000	\$4,000	5,750	1,750
Adjusted Grand Total	\$0	\$2,682	\$4,000	\$4,000	\$5,750	\$1,750
Annual % Change		0.0%	49.1%		43.8%	

- The fiscal 2005 allowance provides an additional \$385,000 to support four existing positions which were previously funded with federal funds.
- Significant increases in the fiscal 2005 allowance include an additional \$500,000 to support the Maryland Technology Transfer Fund and the University Technology Development Fund, \$400,000 to support value added services to incubator companies, and \$180,000 for a new Incubator Company Loan Fund.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Over the Past Three Years, TEDCO Has Been Successful in Leveraging Outside Funding: From August 2000 through August 2003, the Maryland Technology Development Corporation (TEDCO) generated over \$3.0 million in outside funding to companies and organizations in the State. Since September 2003, TEDCO actions have resulted in additional commitments totaling \$3.1 million.

Recommended Actions

	<u>Funds</u>
1. Reduce general funds for contribution to the 401(k) pension plan.	\$ 50,635
2. Reduce general funds in the investment programs.	500,000
3. Delete funds supporting the Incubator Company Loan Fund.	180,000
4. Reduce general funds for salaries and wages.	349,879
Total Reductions	\$ 1,080,514

Updates

Maryland Leads Competitor States in Federal Research and Development Resources; However, Commercialization of the Technology Lags Behind: The 2003 Maryland Innovation and Technology Index indicates that Maryland leads competitor states, Massachusetts, New Jersey, North Carolina, Pennsylvania, and Virginia, in Research and Development resources. However, commercialization of the research is lagging behind.

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Operating Budget Analysis

Program Description

Statutory History

The Maryland Technology Development Corporation (TEDCO) was established by Chapter 661, Acts of 1998 to stimulate the creation of and investment in new scientific research and technologies for economic development in the State. The enabling legislation allows the corporation to (1) accept loans, grants, or assistance from federal, State, or local governments, colleges or universities, or private sources; (2) acquire, construct, develop, manage, market, manufacture, license, sublicense, reconstruct, rehabilitate, improve, maintain, equip, lease, repair, and operate any project in the State; (3) acquire, purchase, hold, lease, and use any franchise, patent, license, or real, personal, mixed, or tangible or intangible property; (4) sell, lease, transfer, license, sublicense, assign, and dispose of any property; (5) acquire any lands, structures, property, rights-of-way, franchises, easements for the construction, improvement, rehabilitation, or operation of a project; (6) set rates, rentals, fees, and charges for services and resources; (7) do all things necessary to carry out the powers granted, and (8) exercise any power not in conflict with the Constitution and the law of the State.

TEDCO is also exempt from (1) State and local taxes; (2) oversight by the Board of Public Works and the laws governing procurement under the General Procurement Law; (3) laws governing the State personnel management system; (4) laws regarding attendance of the public at open sessions; (5) laws related to executive departments. TEDCO, its board, and employees are subject to the public ethics law and the Public Information Act. The debts, claims, obligations, and liabilities of TEDCO or its subsidiaries, if any, may not be considered a debt of the State or a pledge of its credit.

Chapter 13, Acts of 2000 amended certain parts of the TEDCO statute, including changing the name from the Maryland Science, Engineering, and Technology Development Corporation to the Maryland Technology Development Corporation or TEDCO, expanding the board from 11 to 15 members, and authorizing the corporation to make grants and equity investments in technology-based businesses. Finally, TEDCO's statutory authority was further amended by Chapter 364, Acts of 2002 to allow the corporation to be a member of or create a nonprofit for-profit entity that meets the eligibility requirements for the receipt of certain federal grants.

Maryland Technology Transfer Fund (MTTF)

MTTF provides State seed investments of up to \$50,000 in very early stage companies to encourage technology transfer from universities and federal laboratories. MTTF awards have a repayment obligation in the event of commercialization and may require in-kind matching funds depending upon the size of the company. In December 2001, TEDCO staff completed the detailed design of the new MTTF (formerly known as the Maryland Industrial Partnerships Program). Prior to

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TEDCO's administration, this program was funded through the Department of Business and Economic Development's (DBED) Enterprise Fund at approximately \$200,000 annually. TEDCO piloted the revised MTTP program during fiscal 2002 utilizing a \$460,000 grant from DBED's Enterprise Fund. Beginning in fiscal 2003, the program was expanded to include all universities and federal labs in Maryland and was supported at the \$1.0 million level consisting of \$800,000 from TEDCO's operating budget grant provided from the Enterprise Fund and an additional direct grant from the Enterprise Fund in the amount of \$200,000. Beginning in fiscal 2004, the MTTF was funded with general funds through a Board of Public Works Grant. Since inception and through the second quarter of fiscal 2004, TEDCO has received 65 proposals for investment financing from the MTTF. Of the 65 projects, 41 were approved totaling \$2,049,691 and another 4 proposals totaling \$188,853 were approved for continuation funding. In fiscal 2005 TEDCO is requesting \$1.75 million to fund MTTF investments. The request for additional funds over the amount provided for fiscal 2004 represents a 16.7%, or \$250,000 increase over fiscal 2004 funding levels. **In light of the State's fiscal condition, the Department of Legislative Services (DLS) recommends level funding this program for fiscal 2005 at \$1.5 million.**

University Technology Development Fund (UTDF)

The UTDF provides investments of up to \$100,000 to support the development and commercialization of university-owned intellectual property. Since inception and through the second quarter of fiscal 2004, TEDCO has received 60 proposals for investment financing from the UTDF. TEDCO has approved funding for 36 projects totaling \$1,778,101 and another 3 proposals totaling \$135,000 are approved for continuation funding. For fiscal 2005 the corporation is requesting \$750,000 to fund UTDF investments. The request for additional funds over the amount provided for fiscal 2004 represents a 50%, or \$250,000 increase over fiscal 2004 funding levels. **In light of the State's fiscal condition, DLS recommends level funding this program for fiscal 2005 at \$750,000.**

Maryland University Intellectual Property Support Fund

The Maryland University Intellectual Property Support Fund is intended to promote technology transfer from Maryland universities to the private sector by increasing the number of patent applications and invention disclosures resulting from university research and development. The program provides 50% of the cost of initial patent applications up to a match of \$5,000. In fiscal 2004, TEDCO allocated \$500,000, or 25% of its total program budget to this initiative as the first of three years of support. The goal is to support 300 new patent applications over the first three years of the program with a total commitment of \$1.5 million.

TEDCO has agreements with the University of Maryland Baltimore County; University of Maryland, Baltimore; University of Maryland, College Park; University of Maryland Biotechnology Institute; Johns Hopkins University; and additional agreements which are expected to be executed shortly. To date, one new patent application has been submitted and is still pending under this program. The program has a self-renewing feature where each campus sets aside a share of revenue

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earned by patents supported under the fund for future patent applications. The set-aside is managed by the university technology licensing office to increase the amount of funding available for intellectual property protection.

Incubator Facilities Program

The incubator program will be funded with general obligation (GO) bonds and therefore discussed in the GO analysis.

TEDCO Funding History

Although funds were not provided at the time the corporation was created, TEDCO received a grant of \$642,000 from the Enterprise Fund to provide start-up funds for staff and operations during fiscal 2000. The fiscal 2001 through 2003 budgets provided operating subsidies funded from the Enterprise Fund in the amounts of \$2.0 million, \$2.25 million, and \$2.75 million, respectively. The fiscal 2004 allowance provided TEDCO with an operating subsidy of \$2.0 million, or \$750,000 less than what it received for fiscal 2003. In addition, the fiscal 2004 budget for the first time supported TEDCO with State general funds rather than through a special fund grant from DBED's Enterprise Fund. The funds were budgeted as a general fund grant through the Board of Public Works and were funded under Miscellaneous Grants to Private Nonprofit Groups. In fiscal 2005 TEDCO will be funded under its own budget code. The Governor's allowance provides \$5.75 million in a general fund grant to support the operating budget and \$1.5 million to support the incubator program in the capital budget. **Exhibit 1** provides a breakdown of TEDCO's operating funding history and utilization.

Exhibit 1
TEDCO Operating Budget
Fiscal 2001 – 2005

Programs/Purpose	FY 2001 <u>Actual</u>	FY 2002 <u>Actual</u>	FY 2003 <u>Actual</u>	FY 2004 <u>Approp.</u>	FY 2005 <u>Allowance</u>
Technology Benchmarking	\$300,000	\$521,000	\$481,423	\$216,520	\$398,750
Technology Transfer Programs & Services	425,000	704,000	1,575,079	1,255,660	1,743,250
Technology Commercialization & Incubation	500,000	581,000	360,414	192,520	587,751
Program Services	533,000	0	0	0	\$0
Executive Management	242,000	444,000	333,084	335,300	340,249
Program Total	\$2,000,000	\$2,250,000	\$2,750,000	\$2,000,000	\$3,070,000
Investment Programs*	0	0	682,000	2,000,000	2,680,000
Total	\$2,000,000	\$2,250,000	\$3,432,000	\$4,000,000	\$5,750,000

Note: These figures do not include \$200,000 received from DBED as a grant to support the MTTF program for fiscal 2003.

* Investment Programs include the Maryland Technology Transfer Fund, the University Technology Development Fund, and the Incubator Company Loan Fund.

Source: Maryland Technology Development Corporation

Performance Analysis: Managing for Results

TEDCO does not participate in the State's Managing for Results program. However, TEDCO is in the process of working with the Department of Budget and Management to formulate a Memorandum of Understanding that will contain performance measures.

Governor's Proposed Budget

The fiscal 2005 allowance for TEDCO is budgeted as a State grant in the amount of \$5.75 million, which is \$1.75 million, or 43.8% higher than the fiscal 2004 working appropriation. **Exhibit 2** summarizes the major changes.

Exhibit 2
Governor's Proposed Budget
Maryland Technology Development Corporation
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$2,682	\$4,000	\$5,750	\$1,750	43.8%
Adjusted Grand Total	\$2,682	\$4,000	\$5,750	\$1,750	43.8%

Where It Goes:

Personal

Salaries and wages..... \$415

Program Activity

Increased funding to support value added services to incubator companies 400
Increased funding for Advanced Technology Program to promote technology commercialization..... 100
Increased funding to leverage additional federal funds 120
Increased advertising, marketing and printing expenses 5
Increased legal fees..... 20

Investment Programs

Increased funding for Maryland Technology Transfer Fund and University Technology Development Fund 500
Increased funding for a new Incubator Company Loan Fund to provide working capital..... 180
Other 10

Total **\$1,750**

Note: Numbers may not sum to total due to rounding.

Personal Expenses

The fiscal 2005 allowance provides \$1,185,360 for personnel expense, which is a 48.2%, or \$385,360 increase over the fiscal 2004 working appropriation. TEDCO has 10 full-time employees; 6 are State-funded positions and 4 are funded through competitive one-time federal grants. In fiscal 2005 TEDCO is requesting State funding for all 10 positions due to the uncertainty of the availability

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of federal funding for the fiscal 2005 budget. Additionally, the increase includes a 5% performance based and cost-of-living adjustment, and an 8% contribution to the employee 401(k) pension plan.

Program Activity

Changes in program activity include \$400,000 to support value-added services to incubator companies. These services include business assistance, a monthly incubator newsletter, incubator association dues, entrepreneurial training programs, access to capital investor events, evaluation services, and TEDCO program management. In fiscal 2004 these services were funded with a \$200,000 federal grant which TEDCO matched with \$160,000 from a fiscal 2003 carry forward and \$40,000 from DBED. Other changes include a \$100,000 increase to enable TEDCO to assist disadvantaged business enterprises to access Federal Small Business Innovation Research (SBIR) grants. This program was funded in fiscal 2004 with \$100,000 in federal funds and a match by TEDCO with a \$100,000 carry forward.

In order to take advantage of federal funding opportunities, TEDCO employs a consulting service to help acquire federal funding. Federal funding opportunities increased \$120,000, or 200% from \$60,000 in fiscal 2004 to \$180,000 in fiscal 2005. \$100,000 of the increase is earmarked as a State match for the U.S. Department of Agriculture Beltsville Agricultural Research Center and Ft. Detrick grants and \$20,000 is for consulting fees. Other adjustments include a \$5,000 increase in advertising, marketing, and printing expenses and a \$20,000 increase in legal fees. TEDCO is statutorily obligated to use the State Attorney General's Office for legal services and reimburses DBED for these legal services through a negotiated agreement. The fiscal 2005 increase in legal fees is due to increased program activity.

Investment Programs

Funding for the investment programs are increasing 34% from \$2.0 million in fiscal 2004 to \$2.68 million in fiscal 2005. The increase is due to a \$250,000 increase in the MTTF, a \$250,000 increase in the UTDF, and a \$180,000 increase for a new program initiative, the Incubator Company Loan Fund. According to TEDCO, there are no State programs that provide working capital loans for growth-oriented incubator stage companies. Accordingly, TEDCO is proposing to create an Incubator Company Loan Fund that will provide low interest loans to start up technology companies. This loan fund could be used to leverage federal grant/loan programs such as the Small Business Administration's Micro-Enterprise Loan Fund, the Economic Development Administration's Revolving Loan Fund, and the Treasury Department's Community Development Investment Fund, and New Markets Tax Credits. Repayments to the loan fund will be re-cycled for future investments. **In light of the State's fiscal condition, DLS recommends level funding these programs for fiscal 2005 at \$2,000,000.**

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce general funds for contribution to the 401(k) pension plan. Maryland Technology Development Corporation (TEDCO) employees are not State employees; however, the positions are funded by the State. The 2004 reconciliation act is deleting the deferred compensation for State employees, and the Department of Legislative Services is recommending the same for TEDCO.	\$ 50,635	GF
2. Reduce general fund expenditures in the investment programs, including the Maryland Technology Transfer Fund and the University Technology Development Fund. After these reductions, \$1,500,000 will remain to support the Maryland Technology Transfer Fund and \$750,000 to support the University Technology Development Fund which are the same amounts expended for these activities in fiscal 2004. These reductions are necessary due to the structural imbalance the State is facing.	500,000	GF
3. Delete general funds for the proposed Incubator Company Loan Fund. This fund was to provide low interest rate working capital loans to incubator stage companies; however, due to the structural imbalance the State is facing, it is recommended that these funds be deleted.	180,000	GF
4. Reduce general funds for salaries and wages. This reduction provides \$784,846 to support 6 State-funded positions which is the same support in fiscal 2004. In fiscal 2004, 6 of the Maryland Technology Development Corporation's (TEDCO) 10 positions were funded with State funds and 4 positions were funded with federal funds. TEDCO is requesting State funding for all 10 positions due to unpredictable nature of federal reimbursements. Although these are not new positions, the State is facing a fiscal imbalance, and it is recommended that the funding not be provided for these positions.	349,879	GF

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Additionally, following the recommendations of the Spending Affordability Committee, funding new positions should be limited to certain areas related to homeland security and essential services only.

Total General Fund Reductions **\$ 1,080,514**

Updates

1. Maryland Leads Competitor States in Federal Research and Development Resources; However, Commercialization of the Technology Lags Behind

The 2003 Maryland Innovation and Technology Index indicates that Maryland leads competitor states, Massachusetts, New Jersey, North Carolina, Pennsylvania, and Virginia in Research and Development (R&D) resources. Maryland has more federal labs than any other State and as a result, its economy is dependent on R&D for growth. In fiscal 2000 the federal government supported 74% of R&D conducted in Maryland, 24% in Massachusetts, and 51% in Virginia. On average, the federal government supports 21% of all R&D in the United States. Although Maryland receives more federal funds and performs more R&D than its competitor states, the federal laboratories and universities have not been as efficient in commercializing their technology. As a result, Maryland ranks in the middle for technology commercialization against its competitor states. One of TEDCO's primary missions is to capitalize on the substantial federal research funding available in Maryland and to promote the commercialization of the technology research being conducted in the universities and federal laboratories. As shown in **Exhibit 3**, all indications are that TEDCO has been successful in securing outside funding including federal funding for organizations and companies in Maryland. Over the past three years, TEDCO has successfully secured \$6.2 million in outside funding sources. Of the \$6.2 million, \$3.1 million was awarded since September 2003. Additionally, TEDCO is anticipating a federal award of \$525,000.

Exhibit 3 Outside Funding Sources

<u>Program</u>	<u>Amount</u>	<u>Source</u>	<u>TEDCO State-funded Match</u>	<u>Fiscal Year</u>	<u>Term of Grant</u>
Maryland Technology Partnership for Innovation	\$667,500	NSF	\$60,000	2001	2 years
eReadiness Maryland	210,000	Private/EDA	100,000	2001	2 years
Mid-Atlantic Regional Technology Transfer Center	205,000	NASA	0	2001	3 years
Best Practices in Business Incubation	200,000	EDA	160,000	2001	2 years
NAVAir Technology Commercialization Initiative	1,000,000	U.S. Navy	0	2002	2 years
Maryland Minority SBIR Initiative	225,000	SBA	150,000	2002	2 years
American Society of Mechanical Engineers – Fellow	40,000	ASME	0	2002	2 years

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<u>Program</u>	<u>Amount</u>	<u>Source</u>	<u>TEDCO State- funded Match</u>	<u>Fiscal Year</u>	<u>Term of Grant</u>
eReadiness Study of Western Maryland	50,000	EDA/ARC	25,000	2003	1 year
New Markets Growth Fund (Dingman Center – UMCP)	500,000	SBA/ FHLBAtl	0	2003	3 years
Total Approved Aug. 2000 – Aug. 2003	\$3,097,500		\$495,000		
NAVAir Technology Commercialization Initiative	1,500,000	U.S. Navy	0	2004	2 years
Aberdeen Technology Commercialization Initiative	1,000,000	U.S. Army	0	2004	2 years
Council of State Governments	25,000	CSG	0	2004	1 year
Maryland Technology Partnership for Innovation	600,000	NSF	60,000	2004	3 years
Total Approved Since August 2003	\$3,125,000		\$60,000		
Total Approved to Date	\$6,222,500		\$555,000		
Pending Awards					
Rural Business Incubation Initiative	500,000	SBA	0	2004	2 years
eReadiness Study of the Eastern Shore	25,000	USDA	15,000	2002	1 year
Total	\$525,000		\$15,000		
	\$6,747,500		\$570,000		

SBIR = Small Business Innovation Research

NSF = National Science Foundation

SBA/FHLBAtl = Small Business Administration/Federal Home Loan Bank of Atlanta

EDA = Economic Development Administration

NASA = National Aeronautics and Space Administration

ASME = American Society of Mechanical Engineers

ARC = Appalachian Regional Commission

Source: Maryland Technology Development Corporation

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Technology Development Corporation (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	3,000	0	0	0	3,000
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	-319	0	0	0	-319
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	2,682	0	0	0	2,682
Fiscal 2004					
Legislative Appropriation	\$4,000	\$0	\$0	\$0	\$4,000
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$4,000	\$0	\$0	\$0	\$4,000

Note: Numbers may not sum to total due to rounding.

**Object/Fund Difference Report
Maryland Technology Development Corporation**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, Contracts	\$ 2,681,500	\$ 4,000,000	\$ 5,750,000	\$ 1,750,000	43.8%
Total Objects	\$ 2,681,500	\$ 4,000,000	\$ 5,750,000	\$ 1,750,000	43.8%
Funds					
01 General Fund	\$ 2,681,500	\$ 4,000,000	\$ 5,750,000	\$ 1,750,000	43.8%
Total Funds	\$ 2,681,500	\$ 4,000,000	\$ 5,750,000	\$ 1,750,000	43.8%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
Maryland Technology Development Corporation**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 Tech. Development, Transfer and Commercialization	\$ 0	\$ 0	\$ 4,000,000		\$ 5,750,000	43.8%
02 Maryland Technology Incubator Program	2,681,500	0	0	-100.0%	0	0%
Total Expenditures	\$ 2,681,500	\$ 0	\$ 4,000,000	49.2%	\$ 5,750,000	43.8%
General Fund	\$ 2,681,500	\$ 0	\$ 4,000,000	49.2%	\$ 5,750,000	43.8%
Total Appropriations	\$ 2,681,500	\$ 0	\$ 4,000,000	49.2%	\$ 5,750,000	43.8%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.