

MEMORANDUM

November 3, 2021

TO: Planning, Housing, and Economic Development (PHED) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Continuation of SBIR/STTR Matching Grant Program and
Biotechnology Investor Incentive Tax Credit Supplement Review

PURPOSE: Discussion, make recommendations for next steps

Those expected for this worksession:

Laurie Boyer, Office of the County Executive (CEX)
Peter McGinnity, Department of Finance (Finance)
Judy Costello, CEX
Ben Wu, Montgomery County Economic Development Corporation (MCEDC)
Brad Stewart, MCEDC
Phil Singerman, MCEDC
Christy Blake, MCEDC
Rich Bendis, BioHealth Innovation, Inc (BHI)
Sarah Miller, BHI

The PHED committee requested a review of the subprograms of the Economic Development Fund (EDF) throughout FY22. The committee reviewed the Small Business Research Matching Grant Program (i.e., “SBIR/STTR Matching Grant Program”) and the Biotechnology Investor Incentive Tax Credit Supplement (BIITCS) on July 12, 2021.¹ Following that review, the committee requested that BHI lead the effort with MCEDC to provide recommendations to update the SBIR/STTR Matching Grant Program.

The committee will review the partners’ recommendations and discuss options to update the SBIR/STTR Matching Grant Program. There is no appropriation or legislation before the committee to recommend for Council action. The PHED Committee is expected to indicate a preferred direction if it wants to update the program, or it may request additional review.

¹ [Council staff report for July 12, 2021.](#)

I. **SBIR/STTR Matching Grant Program**

A. Background

Below is an abbreviated version of the background and items reviewed on July 12, 2021. The [July 12, 2021 Council staff report](#) contains additional details about these items.

The SBIR/STTR Matching Grant Program was established in County Code in FY 2019. **The SBIR/STTR Matching Grant Program is an entitlement program for small businesses with an industry focus on the County’s biotechnology sector.** The intent of the program is to provide small grants for early-stage County businesses that successfully received a federal SBIR/STTR Phase I or II grant to conduct research in medicine, biotechnology, or life sciences.

The committee reviewed and considered several possible changes to the SBIR/STTR Matching Grant Program. Below is a summary of the topics presented previously.

- Enhance data reporting and outreach.
- Enhance Phase I funding.
- Alter the 50/50 split for Phase I and Phase II grants.
- Develop a Phase “0” program.

B. Discussion about updating the program

BHI and MCEDC provided separate recommendations for the PHED Committee to consider. See BHI’s recommendations on ©1 and MCEDC’s recommendations on ©2-7.

Below is a summary of the organizations’ recommendations.

- Both organizations recognized the importance of assisting early-stage biotech businesses in the County, and that the current SBIR/STTR Matching Grant Program aids in differentiating and marketing the County’s economic development efforts with this industry.
- Both organizations also acknowledged that additional investments by the County for a technical assistance program could spur greater growth for early-stage startups, which would provide greater economic benefits to the County.
- Both organizations recommended removing the first-come, first-served requirement of the program and focus on other requirements (e.g., grants for businesses in the technical assistance programs).
- A difference between the recommendations is the entity that would administer the technical assistance program for the County.
- MCEDC also recommended it directly administer a revised matching grant program in conjunction with its technical assistance program.

To aid the committee's discussion on these recommendations, Council staff provides three broad options for the committee's consideration and for discussion purposes. There is no legislation or appropriation before the committee; therefore, these options are illustrative of possible future directions for the program. The committee may refine any of these options or propose other options.

Option #1: Make no changes to the program. The committee may determine that no legislative or administrative changes are necessary because the economic and fiscal benefits and costs are satisfactory. **Currently, the program provides an important tool to promote the County's support for biotech industries.** Compared to other EDF subprograms, the current SBIR/STTR Matching Grant Program has a clear application process for businesses to understand and is relatively straightforward for the County to administer. As discussed on July 12, a downside to the current program approach is it awards businesses that apply online the quickest. This approach reduces the opportunities of the County leveraging the EDF grants to maximize economic growth in the biotechnology sector.

Option #2: Shift focus to Phase I grants. The July 12 discussion with the committee and partner organizations highlighted the greater value of the Phase I grants for eligible applicants when compared to the Phase II grants. Currently, the annual funding provides funding opportunities for about three Phase II businesses a year. With the expansion of the program through Bill 37-19, more businesses will be eligible for this program. If the committee wants to make a modest change to the program, it could amend it to focus the County grants on Phase I applicants. **This approach would maximize the County's limited funds to support more early-stage businesses or commercialization concepts.** The Council must amend the legislation to shift the funding allocation of the program.

Option #3: Fund a technical assistance program. Both organizations recommended creating a technical assistance program for early-stage biotechnology startups. Additional business development efforts to identify early-stage startups, additional assistance with applying for SBIR/STTR grants, and assistance to aid commercialization would accelerate and enhance the County's economic development efforts.

The County does not currently have the capacity to create and manage a technical assistance program internally. **The County would need to consider increasing County staff or contracting for these efforts.** Regarding a contract, the committee does not need to decide any specifics about it today given it has not indicated a preferred direction for the SBIR/STTR Matching Grant Program. If the committee supports the County contracting for a technical assistance program, the next step is for Council and Executive staff to work with the County's partners to refine the parameters and expectations of a draft contract for the committee's review.

If the committee supports creating a technical assistance program, there are two general approaches to consider.

1. Create a standalone technical assistance program that replaces the existing matching grant program to support early-stage biotechnology startups applying for SBIR/STTR grants; or
2. Create a technical assistance program that is complementary with the matching grant program.

The matching grant program should be amended to align it with the technical assistance program should the committee prefer creating a technical assistance program and retaining a matching grant program. This will ensure that the County’s funding is leveraging the same economic development opportunities for greater impact. Any iteration of this grant program should be funded through the EDF with the Department of Finance, like other general business assistance programs. This ensures that the County’s business assistance programs are administered, monitored, and reported collectively. This does not preclude a third-party assisting with the application process or with applicant review, like MCEDC does with the MOVE Program. The matching grant program does not need to be amended if the committee prefers to focus solely on a new technical assistance program.

The PHED Committee should indicate if and how it wants to update the SBIR/STTR Matching Grant Program based on the July 12 review and the organizations’ recommendations. Council staff will work with Executive staff and the County’s partners to implement the committee’s preferred direction based on its discussion.

II. BIITCS Follow up

The BIITCS was also reviewed on July 12, 2021, with the SBIR/STTR Matching Grant Program. The committee’s focus following that meeting was on the SBIR/STTR Matching Grant Program; however, Council staff notes that the BIITCS has similar attributes to the SBIR/STTR Matching Grant Program. The BIITCS is a straightforward program to administer and market, but it awards the quickest applicants, not those with the largest economic benefit to the County. The committee, as it discusses the SBIR/STTR Matching Grant Program, could consider aligning this program or its funding with its preferred direction for the SBIR/STTR Matching Grant Program or leave it as a standalone grant program.

This packet contains:

	<u>Circle #</u>
BHI recommendation for SBIR/STTR Matching Grant Program	1
MCEDC recommendations for SBIR/STTR Matching Grant Program	2-7

Smith, Gene

From: Sarah Miller <smiller@biohealthinnovation.org>
Sent: Wednesday, September 22, 2021 1:55 PM
To: Smith, Gene; Christy Blake; Richard Bendis; Brad L. Stewart; Phil Singerman
Cc: Boyer, Laurie; McGinnity, Peter; Salem, Pofen; Hetman,Dennis; Bill Tompkins
Subject: RE: SBIR/STTR update

[EXTERNAL EMAIL]

Dear Gene,

Thank you for including BHI in the review of the county's SBIR/STTR matching program.

Based on BHI's nearly 7 years of providing direct technical assistance to SBIR/STTR applicants, our participation in discussions that you've led at the request of councilmembers, and after reviewing the high-level analysis performed by MCEDC, we offer the following recommendations:

The county's current matching program is a unique marketing tool that reinforces the county's pro-biohealth image, but the program funds could be deployed more strategically.

Although SBIR awardee's technology is vetted for commercial relevance by the SBIR process, BHI recommends replacing the county's first-come first serve model with an evaluation that analyzes the growth potential of the applicant and the applicant's potential impact on the local biohealth cluster. BHI recommends assigning the development of the new criteria and the evaluation process to BHI as part of its FY22 contract with the county. BHI will evaluate the applicants and provide recommendations to the county just as MCEDC does for other types of incentives. This arrangement will add commercialization expertise to the county program, while reducing the county staff's administrative burden.

There is general agreement that additional public investments in SBIR/STTR activities could strengthen local technology commercialization, support entrepreneurship, and positively impact our regional economy over time.

BHI is requesting either a repurposing of program funds or a supplemental appropriation for \$200,000, to increase our capacity to provide technical assistance to the county's small biohealth businesses.

In addition to more non-dilutive funding application assistance, BHI would provide technical support for companies transitioning from Phases I to Phase II and assist with the commercialization of their technology that would ultimately increase their competitiveness.

If you have questions, or would like additional information, please let me know.

Thanks for your help,
Sarah

Sarah K. Miller
Vice President of Economic Development
BioHealth Innovation, Inc.
1 Church Street, Suite 801
Rockville, MD 20850
<http://www.biohealthinnovation.org/>



TO: Gene Smith

FROM: Christy Blake, Phillip Singerman, and Brad Stewart

DATE: September 22, 2021

RE: MCEDC Analysis of SBIR/STTR Support Programs in Montgomery County and Recommendations

The Montgomery County Council Policy, Housing, and Economic Development (PHED) Committee has directed the Montgomery County Economic Development Corporation (MCEDC), working with BioHealth Innovation (BHI), to “draft recommendations to enhance the SBIR program.” This memo presents the findings and recommendations of MCEDC; BHI may provide additional comments and recommendations.

This analysis is framed by the following:

- I. The county’s overall economic development strategic goals.
 - II. The performance of county firms in winning federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) funding.
 - III. Existing and future federal, state, county and non-profit programs that support companies applying for or in receipt of SBIR/STTR awards.
 - IV. Best practices from other jurisdictions.
-
- I. The county’s economic development strategic goals provide the framework for designing, implementing, and evaluating economic development programs. One key pillar of the county’s extant economic development strategy is the promotion of entrepreneurship and innovation in accordance with Resolution 19-300 and HB 10-21. Responsibility for the County’s Comprehensive Economic Strategy (CES) has recently been delegated to MCEDC. The CES will be reviewed by the County Executive in January 2022 and enacted by the County Council no later than April 15, 2022. MCEDC is also concluding a report prepared by the Economic Advisory Panel, co-chaired by Norm Augustine and DeRionne Pollard.
 - II. Companies in the State of Maryland successfully compete for federal SBIR/STTR funding; the state generally ranks in the top 10 states in terms of awards on a normative basis; companies in the county represent approximately 50% of total awards in the state, varying by the agency.
 - III. The federal SBIR/STTR program is a major source of federal research and development (R&D) grants and contracts set aside for young and small companies and offers the imprimatur of federal agency vetting and a possible pathway for contracts with federal agencies. SBIR/STTR funding is an asset for county firms, with proximity to federal research and funding institutions in the county a distinct competitive advantage, and we should continue to leverage this available resource to promote the county’s goals. SBA’s Federal and State Technology (FAST) Partnership program provides grants to the state, with a particular focus on increasing the number of applications from “under-performing” states and “under-performing” communities.

- IV. Virtually every other State has an SBIR support program, which variously include technical assistance and Phase 0 grants to increase the number of successful SBIR/STTR applicants, grants to supplement SBIR/STTR awards and to provide gap funding between Phase I to Phase II, and commercialization assistance for early stage and young R&D and tech-based companies.

Programs and initiatives operating in Montgomery County to assist companies to participate in the SBIR/STTR programs:

BHI SBIR/STTR Consulting Services and Conference and Introductory Company Meetings

BHI offers a fee for service program that provides intensive consulting to firms. Additionally, MCEDC provides funding to BHI to support BHI's SBIR initiatives.

Montgomery County SBIR/STTR Matching Grant Program

Montgomery County's Matching Grant Program provides grants to Montgomery County firms that have won life-science focused Phase I or Phase II awards in the prior year and conduct 51% of their R&D in a County location.

TEDCO FAST Program

TEDCO's FAST grant provides technical assistance to first time applicants, focused on the NSF SBIR program, through a structured group training program, with a priority on women, minority, and rural firms. Approximately one-third of the annual cohort of 20+ participants is from Montgomery County.

Maryland Small Business Innovation Research and Technology Transfer Incentive Program

Authorized in 2021 but not funded, the Program in large part mirrors the County program, with a priority for pandemic related R&D and somewhat greater flexibility in determining criteria.

NIH SBIR/STTR Program Training

These programs help small businesses break into the federal research and development (R&D) arena, create life-saving technologies, and stimulate economic growth.

Montgomery County SBIR/STTR Matching Grant Program

The county program was enacted in March 2018, as a pilot program, with a sunset date of July 1, 2025, "to ensure that an evaluation of the merits of the program takes place."

The contemporary Legislative Request Report for Bill 41-17 states:

"Problem: The County needs to encourage economic development in the County.

Goals and Objectives: The goal is to encourage small businesses who receive a federal grant under these programs to locate operations in the County."

The March 16, 2018, staff Report to County Council opined: "Although each of the potential grant recipients at the public hearing stated that the County matching grants would make a difference, it is fair to wonder if these grants would be large enough to make a small business of this type successful or encourage a small business to re-locate or stay in the County."

County program management staff have efficiently implemented the Matching Grant Program as designed by the county and have provided detailed information to County Council. MCEDC supplemented the data supplied to County Council with a detailed analysis of the historical SBIR/STTR performance of County matching fund recipients. In general, the majority of the county's 23 matching grant recipients have been in the county for years, and in some cases, decades, have won millions in SBIR awards, and have in a handful of cases received significant private and public funding.

The modest level of county matching grants in relation to the federal SBIR awards, provided only after winning the much more general federal awards, does not appear to incentivize these firms to apply for federal funding. Additionally, there is no data-driven evidence to support the proposition that the matching grant encourages firms to migrate into the county or deter out-migration; such decisions are usually the result of a complex of factors including customer base, investor requirements, tax incentives, or personal reasons.

In a detailed July 7, 2021, report to the PHED, County Council staff offered evaluations of the matching grant program and suggested potential changes to the program. In other material presented to the PHED, BHI offered five recommendations. We agree with the general direction of these recommendations; however, we believe that the Matching Grant Program should be reviewed within the broader context of the county's overall economic development strategic goals, and the availability of other SBIR/STTR support programs.

Since the original Bill was passed, many significant factors allow these program funds to be directed to have a much greater economic impact on Montgomery County.

- I. Experience from the program has identified ways to better leverage these funds, including multiple federal, state, and private programs which exist and should be utilized to increase the benefit of this program.
- II. The State of Maryland has (authorized in 2021 but not yet funded) the Small Business Innovation Research and Technology Transfer Incentive Program.
- III. The Federal Government has established Technical and Business Assistance (TABA) funds that allow agencies to supplement SBIR/STTR awards with funding for third-party commercialization assistance; generally, \$6500 for Phase I and \$50,000 for Phase II.
- IV. The county has modified the legislation to provide matching grants to life sciences companies outside of the NIH, which expands the pool of eligible applicants.
- V. Federal extramural R&D funding at NIST, NSF, NIH, DOE, and other federal agencies has been massively expanded and will increase the amount of SBIR/STTR funding available.

Building upon the rationale provided in the attached August 30 "Draft Analysis of SBIR/STTR Support Programs in Montgomery County" and the August 31 "Overview of MCEDC Analysis of SBIR/STTR Support Programs in Montgomery County" the following is a redesigned county SBIR/STTR program that leverages federal SBIR/STTR R&D funding, the new federal commercialization assistance grant, and a structured effort to help companies secure outside financial investment.

Our recommendation creates a valuable first step in creating an entrepreneurial ecosystem for Montgomery County companies, our goal with this structure is to use available county financial and technical resources to leverage more external resources to:

- Increase the number of SBIR/STTR grants received.
- Increase outside capital invested.
- Move companies further towards commercialization.
- Continue the successful record of supporting women-owned small businesses and economically disadvantaged and distressed individual-led companies.

MCEDC Recommendations

Based upon the analysis presented, we believe there are four critical points in the SBIR/STTR program spectrum where targeted public support can be even more effective:

- I. Assisting early-stage R&D companies to maximize their likelihood of receiving SBIR/STTR funding to advance technology development.
- II. Assisting successful Phase I winners to develop competitive Phase II applications.
- III. Assisting successful Phase I and II winners to advance toward product commercialization.
- IV. Assisting program participants to receive outside investment.

Program Criteria:

- These are discretionary programs, which require explicit and detailed criteria to determine program participation.
- These programs involve a high level of professional and technical assistance at each stage of the program.
- The Matching Grant Program will require an appropriate entity to manage the selection (MCEDC) and disbursement of funds (County Finance).
- These programs will necessitate a high level of coordination among the organizations that are providing service or managing funding.
- The programs would be a 3-year pilot, beginning in FY23 with a sunset review during FY25 and require detailed metrics on an on-going basis from participating companies.
- The current level of funding – \$425,000 per year – be repurposed among the following tasks:
 - \$225,000 per year for the technical assistance activities
 - \$200,000 for matching grant funding
- MCEDC should be tasked to develop a detailed plan for county review and approval.

Recommended Program Structure - Montgomery County SBIR Support Program 2.0

The revised program should have two components: a new Technical Assistance Program (TAP) and an Investment and Commercialization Assistance Program (ICAP) which includes a repurposed Matching Grant Program, both with a continued focus on the life science sector. These programs will continue the current program's successful record of supporting minority led companies.

The TAP programs should be implemented through a three-year contract with MCEDC, funded at \$225,000 per year. The repurposed SBIR/STTR matching grant program of ICAP should be funded at \$200,000 per year. For the matching grant program, MCEDC will assemble and chair a review committee to awardees and grants will be dispersed and managed by County Finance.

Eligibility

The Technical Assistance Program (TAP) and Investment and Commercialization Assistance Program (ICAP) will provide support at critical stages of the SBIR/STTR programs. All program applicants will also be encouraged to apply for Federal TABA funding and, if funding becomes available, State SBIR/STTR matching grants. Eligible companies must conduct at least 51% of their R&D in a county location, and:

- Phase One Applicants – Assisting early-stage R&D companies to maximize their likelihood of receiving SBIR/STTR funding to advance technology development. Eligibility will be limited to:

- Companies with fewer than 20 employees
- Less than five years in operation
- Have received no more than two SBIR/STTR Phase I awards
- No Phase II awards
- Phase Two Applicants – Assisting awardees of Phase I funding to apply for Phase II funding. Eligibility will be limited to:
 - Companies with fewer than 20 employees
 - Less than five years in operation
 - Have received no more than four SBIR/STTR Phase I awards
 - No Phase II awards

Technical Assistance Program (TAP) and Investment and Commercialization Assistance (ICAP)

These programs will be overseen and coordinated by MCEDC with services provided by organizations with a proven track record, such as: TEDCO; BioHealth Innovation (BHI); and the Maryland Tech Council (MTC). Specific programs from each of these organizations will be matched to the appropriate stage of the companies supported, and funding for these support services will be provided by the MCEDC managed portion of this program.

- Technical Assistance: support services to train companies to write and submit successful SBIR/STTR grant applications
- Investment Assistance: business mentoring to help companies develop and execute successful funding strategies to acquire follow-on funding
- Commercialization Assistance: business consulting to help companies develop and execute commercialization strategies for their SBIR/STTR funded research

Matching Grants

Selected awardees of Phase I and Phase II SBIR/STTR grants who receive TABA funding to develop commercialization plans will receive matching grants to fund investment assistance. This would utilize the \$200,000 in County funds to provide matching grants to TABA recipients.

- Phase I TABA Recipients – a 1:1 match of \$6,500.
- Phase II TABA Recipients – a 1:5 match of \$10,000.

Federal TABA grants are required to be used to pay for third-party service providers to help develop commercialization plans. Matching Grant Program awards from Montgomery County will be restricted to be utilized for the companies to receive investment assistance; business mentoring to help companies develop and execute successful funding strategies to acquire non-governmental funding. We would encourage awardees to utilize one of the ICAP service providers to maximize efficiencies for the program. Matching grants would be limited to a lifetime total of two per company for Phase I grants and one for Phase II grants.

Program Outcomes:

Montgomery County SBIR Support Program 2.0 would significantly increase the number of county firms assisted by the program, at least doubling both the number of companies assisted and the number of minority-led companies assisted. The current Matching Grant Program assisted 14 firms in FY2019 and 10 firms in FY2020. Under the proposed ICAP program up to 25 firms could be assisted annually.

BHI, under its “fee for service” program, served five county companies in CY2019 and four county companies in CY2020; under its FY2020 contract funding from MCEDC, BHI served 13 very early stage participating companies with 191 hours of consulting services. With SBIR/STTR funding provided TAP and ICAP programs and supplemented by TABA awardees, BHI would have the opportunity to serve a much larger number of companies.

TEDCO, under its SBA-funded SBIR FAST Program, served 27 companies in 2021, approximately one-third in the County. TEDCO has received funding to continue the program in 2022. The county does not currently provide TEDCO with funding. ICAP funding would support a targeted Montgomery County life science-focused cohort, potentially doubling the number of county firms served.

To further amplify the program, MCEDC is prepared to commit additional resources to support the administrative responsibilities of the program, including an independent evaluation. We will seek matching contributions from our local partners such as BHI, MTC and TEDCO.