

M E M O R A N D U M

April 19, 2021

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

FROM: Gene Smith, Legislative Analyst

SUBJECT: **FY22 Operating Budget – Incubator Programs Non-Departmental Account (NDA)**

PURPOSE: Make recommendations for Council consideration

Expected Participants:

- Jerome Fletcher, Office of the County Executive (CEX)
- Laurie Boyer, CEX
- Ruth Semple, CEX
- Pofen Salem, Office of Management and Budget (OMB)

Summary of FY22 Recommended Budget and Key Discussion Issues

Incubator Programs NDA	FY21 Approved	FY22 CE Recommended	Change from FY21 Approved
General Fund	\$2,955,913	\$3,283,011	11.1%
Personnel Costs	\$274,284 2.00 FTEs	\$526,382 5.00 FTEs	91.9% 3.00 FTEs
Operating Costs	\$2,681,629	\$2,756,629	2.8%
Total Expenditures (All Funds)	\$2,955,913 2.00 FTEs	\$3,283,011 5.00 FTEs	11.1% 150.0%

Council staff has identified the following key issues/recommendations for Council discussion:

- The Executive recommends shifting the incubator’s program and portfolio management to the County in FY22. **The estimated general fund cost for this new approach is \$320,120, with annual ongoing expenditures beyond FY22.**
- The Executive recommends supporting this additional \$320,120 in funding for incubators with American Rescue Plan Act (ARPA) funding. **Council staff recommends that the Council not support the use of ARPA funding for these additions.** This is a new

initiative with most of this funding supporting ongoing staff costs. Per Council policy, the Council should not use one-time revenues to fund recurring expenditures. The FY22 budget was balanced with ARPA funding for these expenditures. **If the committee concurs with Council staff, the committee should reduce this funding or find offsetting reductions to fund these expenditures in FY22.**

- **Council staff recommends that the committee return to the County’s approach for its incubators in the summer or fall 2021.** The Council is seeing the draft incubator study for the first time and additional information and time are recommended to understand the Executive’s approach and future fiscal impact to shift the program responsibility to the County.

I. Racial Equity and Social Justice Considerations

The Council adopted Bill 27-19 on December 2, 2019. This bill established and required several elements, including that the Executive submit a racial equity and social justice (RESJ) impact statement for each bill and each management initiative or program that would be funded in the operating and capital budgets.

For the FY22 operating budget development process, OMB, working with the Office of RESJ, developed and dedicated a section of the program proposal form to addressing racial equity. Departments and County partners were asked the following questions:

- Does your department use quantitative and qualitative data to track program access and/or service outcomes for different population groups?
- Which community residents will potentially benefit the most from your program proposal or be burdened by your program proposal?
- How does the program promote racial equity?

The County is still in the process of training staff on applying a racial equity and social justice lens to programming and budget decisions; therefore, OMB received a variety of responses to the above questions. Council staff are documenting these responses to establish an official baseline for each department and to identify promising practices and gaps in information.

Council staff will evaluate what information departments are utilizing, or could utilize, to apply a racial equity lens to budget decisions as Council staff works to develop its Racial Equity and Social Justice Action Plan this spring. Council staff will also coordinate with OMB and the Office of RESJ to help inform a more robust analysis for FY23 and future budget cycles.

II. Budget Overview

See the Executive’s recommendation on ©1. This NDA was created in FY17 due to the privatization of the County’s Department of Economic Development (DED). DED previously managed the Business Innovation Network (BIN) which included the County incubators. Table 1 details the Executive’s recommended changes for this budget in FY22.

Table 1: Executive Recommended FY22 Changes

Description	Expenditures	FTEs
FY21 Approved	\$2,955,913	2.0
Enhance: Staff capacity to support development of County’s entrepreneurial ecosystem	\$320,120	3.0
Increase: FY22 compensation adjustment	\$3,477	0.0
Multi-program adjustments	\$3,501	0.0
FY22 Recommended	\$3,283,011	5.0

The recommended budget highlights the total appropriation, but this NDA provides funding for multiple initiatives, properties, and programs. Table 2 below summarizes the recommended funding by incubator and by program for FY22 compared to FY21 in this NDA.

Table 2: Comparison of FY20 and FY21 Allocation of Funding for Incubator NDA

Facility or Program	FY21 Funding	FY22 Funding
Incubators		
Germantown	\$1,158,455	\$1,158,455
National Cybersecurity of Excellence	\$25,000	\$25,000
Rockville	\$700,174	\$700,174
Silver Spring	\$50,000	\$50,000
Programs		
Wheaton Technical Assistance Program (“TAP”)	\$208,000	\$208,000
<i>Small business technical assistance</i>		
Maryland Small Business Development Ctr. (SBDC)	\$30,000	\$30,000
Latino Economic Development Ctr. (LEDC)	\$125,000	\$125,000
BHI	\$200,000	\$200,000
Nonprofit Incubator	\$185,000	\$185,000
Operating Expenses – entrepreneurial ecosystem program	\$0	\$75,000
<i>Staff</i>		
1.0 FTE for oversight support	\$115,445	\$118,595
1.0 FTE for incubator management	\$159,085	\$162,667
3.0 FTE for incubator support, business development, marketing, programming, etc.	\$0	\$245,120
Total	\$2,956,159	\$3,283,011

Source: Executive staff. Note: FY21 total does not equal FY21 appropriation (difference of \$246) due to how compensation adjustments were loaded after the FY21 budget was approved.

III. Incubators and Programs Review

A. Incubators

The County owns or leases four facilities in the County – three incubators and the National Cybersecurity Center of Excellence. The County is responsible for supporting certain operating expenses for each incubator, and these funds are recommended in the budget. The programmatic

and tenant portfolio of the three incubators is managed by a third party. The County also funds two FTEs in this budget to provide support for financial management (e.g., invoices, collecting rent, etc.) and oversight of the contracts.

The incubators remained open during the pandemic, with some of the life science businesses responding directly to the pandemic. Executive staff notes that the County made several operational modifications at the facilities to ensure safety of the tenants and employees. Occupancy of each incubator has remained around the pre-pandemic occupancy rate.

The Council approved funding for an incubator study in FY19. The draft version of the study was released to Executive staff in November 2020. See the Executive Summary for the study on ©2-4.¹ This study informed the Executive’s recommendation for this budget, as well as the future direction for the incubators. The study notes that:

- The County lacks the essential connectivity within the entrepreneurial ecosystem.
- The Rockville and Silver Spring incubators do not provide specialist facilities to build an ecosystem or focus resources for business growth.
- The County should move to a system-wide approach to support entrepreneurs, not a facility-specific approach.

The Executive’s recommended budget intends to switch the program and tenant portfolio management of all three incubators to the County based on this draft report. Currently, these elements are managed by Launch Workplaces (“Launch”). The Executive has proposed an additional \$320,120 for this purpose, which includes adding 3.0 FTEs to this budget and \$75,000 for general operating support. The Executive also recommended using ARPA funding to backfill the general funds that support this initiative. Additional details about the three incubators are below.

1. Germantown Innovation Center (GIC)

The County is responsible for the operating expenditures, including lease payments for the GIC. A short-term contract was executed with Launch in FY19 to provide programmatic support to the tenants. The County has continued a flexible contract with Launch through the pandemic to provide programmatic support for the GIC. There are currently 23 tenants, with two graduates in FY21. One graduate successfully raised \$115 million in FY21.

The Executive intends for the County to manage the programs and portfolio for this incubator beginning in FY22. The increase in staffing in the recommended budget is necessary to achieve this goal. Should the new staffing not be approved, the County will continue with a flexible contract with Launch. Regardless of which entity is responsible for programs, the intent is for this facility to continue to provide support for life science businesses. The County is supporting conversion of some office space into four additional wet lab suites at the cost of \$0.6 million of previously appropriated funding.

¹ The full draft report is available at – https://montgomerycountymd.gov/COUNCIL/Resources/Files/PDF/Incubator_Study.pdf.

Executive staff estimates that the GIC will require approximately \$1,100,000 in appropriation for expenditures in FY22. It will receive approximately \$568,000 in revenues from tenant payments. Based on these estimates, the County will subsidize this facility's operations at approximately \$532,000 in FY22. The GIC's operations are supported entirely through this NDA.

2. Rockville Innovation Center (RIC)

The County is responsible for the operating expenditures, including mortgage payments and condo fees for the RIC. A short-term contract was executed with Launch in FY19 to provide programmatic support to the tenants. The County has continued a flexible contract with Launch through the pandemic to provide programmatic support for the RIC. There are currently 24 tenants at the RIC, with three new tenants joining the facility in FY21.

The Executive intends for the County to manage the programs and portfolio for this incubator in FY22. The increase in staffing in the recommended budget is necessary to achieve this goal. Should the new staffing not be approved, the County will continue with a flexible contract with Launch. Regardless of which entity is responsible for programs, the intent is for the County to further study the focus and direction of the RIC utilizing the results of the incubator study.

Executive staff estimates that the RIC will require approximately \$398,000 in appropriation for expenditures in FY22. It will receive approximately \$190,000 in revenues from tenant payments. Based on these estimates, the County will subsidize this facility's operations at approximately \$208,000 in FY22. In addition to the appropriation in this NDA, the RIC's mortgage payments are appropriated in the County debt service budget.

3. Silver Spring Innovation Center (SSIC)

The County is responsible for the capital reserve for the SSIC. The County executed a three-year contract with Launch in FY19 to manage the facility's operations and provide programmatic support to the tenants. Launch is responsible for the facility's expenditures and receives the revenue from the tenants to offset those costs. The contract expires at the end of FY21, and Launch does not intend to execute another long-term contract for the facility's management. There are 13 tenants enrolled at the SSIC, with three new tenants joining the facility in FY21.

The Executive intends for the County to manage the programs and portfolio for this incubator in FY22. The increase in staffing in the recommended budget is necessary to achieve this goal. Should the new staffing not be approved, the County will switch to a flexible contract with Launch to continue programmatic elements at the SSIC. Regardless of which entity is responsible for programs, the Executive intends to shift the focus of the SSIC to providing programs and services to the underserved entrepreneur community.

Executive staff estimates that the SSIC will require approximately \$460,000 in appropriation for expenditures in FY22. It will receive approximately \$144,000 in revenues from

tenant payments. Based on these estimates, the County will subsidize this facility's operations at approximately \$316,000 in FY22.

4. National Cybersecurity Center of Excellence (NCCoE)

The County is responsible for the debt service payments and the capital reserve for the NCCoE. The debt service payments were shifted to the Debt Service budget, and the only expenditure in this NDA is the capital reserve in FY22.

B. Wheaton TAP

The Wheaton TAP funded support for the assistance required by §20-76B of the County Code for the Small Business Assistance Program (SBAP). In addition to the technical assistance funding in this NDA, financial assistance required for the SBAP is funded in the Economic Development Fund.

The FY22 recommended appropriation for this program is \$208,000. As the Wheaton Redevelopment Program concludes, this funding is anticipated to continue to support businesses in and around Wheaton. Executive staff anticipate that the Latino Economic Development Center (LEDC) will continue to meet with businesses and provide business support and entrepreneurial training as needed.

Council staff concurs with the Executive's recommendation for this item.

C. Small Business Technical Assistance

This NDA provides small business technical assistance for County businesses generally and in addition to the Wheaton TAP. LEDC and the Maryland Small Business Development Center (SBDC) are the two providers of these programs and services. See ©5 for a description of the services that the County anticipates on funding in FY22. Of note in FY22, Executive staff intends to expand LEDC's services at the same cost to include additional legal webinars and clinics for businesses navigating commercial leases.

Council staff concurs with the Executive's recommendation for this item.

D. Nonprofit Village

The Council approved a \$185,000 appropriation for this organization in FY18, which included \$100,000 in one-time moving expenses. The Executive recommended retaining the \$100,000 one-time appropriation in FY20 to augment the services delivered by the organization. The Council supported this continuing support. See ©5 for a description of the services that the County anticipates on funding in FY22 through this support.

Council staff concurs with the Executive's recommendation for this item.

E. BHI

The Executive recommends a \$200,000 appropriation for the continuation of a contract with BioHealth Innovation, Inc. (BHI). See ©5 for a description of the services that the County anticipates on funding in FY22 through this support.

Council staff concurs with the Executive’s recommendation for this item.

IV. Expenditure Discussion

The Executive recommends funding the new approach/initiative for incubators in FY22 with ARPA funding. ARPA funding is a one-time Federal grant that generally supports the County’s ongoing response to the pandemic, including negative economic impact or revenue loss. The County will receive half the funding in FY21 and half the funding the same time next year – near the end of FY22.

See ©6 for a list of the Executive’s recommended uses of ARPA in FY21 and FY22. Most of the funding supports revenue losses or direct responses to the pandemic. There are few new initiatives, like for the incubators and MCEDC, that the Executive proposed in FY22. Based on the current estimates, the County’s second tranche of ARPA funding in April 2022 will likely support this new initiative.

Council staff recommends that the committee not support the use of ARPA funding for these enhancements. This enhancement is a new initiative, not a continuing pandemic response that the Council funded in FY21. The Council should consider if and how this new initiative is aligned with the overall use of the ARPA and the County’s response to the pandemic. In addition, most of this enhancement funds 3.0 FTEs which are recurring expenditures. **Per Council policy, the Council should avoid using one-time revenues to fund general, recurring items.**

The FY22 budget was balanced on the need to use ARPA funding for this initiative. If the committee concurs with Council staff’s assessment on ARPA funding use, the committee should either reduce the recommended appropriation by \$320,120 or identify offsetting general fund reductions in FY22 to support this initiative.

The Council will be considering the overall deployment of the ARPA funding for all its priorities, and these items can be considered amongst other priorities. **The decision to reduce this amount from the budget does not mean this effort cannot be considered during the year.** The Council may also benefit from some time to consider the Executive’s revised incubator approach. The incubator study was presented to Executive staff in November 2020, but this is the first opportunity that Councilmembers are seeing its contents. Additional time and review would aid the PHED Committee’s understanding of the Executive’s approach and the appropriate funding source for this expansion.

This packet contains:

Executive FY22 recommendation
Executive summary – draft Incubator Study
Summary of FY22 performance by contractor
Executive recommended FY21 and FY22 ARPA uses

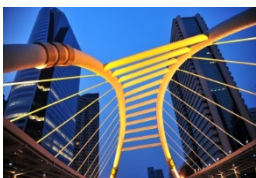
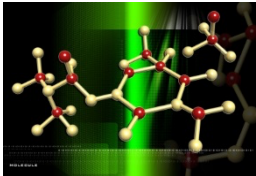
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☀ Incubator Programs - Economic Development Partnership

This NDA provides for facility lease payments, program and portfolio management services for the County's Business Innovation Network (BIN) facilities, and program funding for the Business Incubator Without Walls Program (for the Down County area). The BIN consists of three physical locations: the Silver Spring Innovation Center (SSIC) on Georgia Avenue, the Rockville Innovation Center (RIC) in Rockville Town Square, (both owned by the County), and the Germantown Innovation Center (GIC, on the campus of Montgomery College under lease from the College Foundation until 2036). This NDA also supports the National Cybersecurity Center of Excellence (NCCoE), located at 9700 Great Seneca Highway in Rockville, as a partnership between the National Institute of Standards and Technology (NIST), the State of Maryland, and Montgomery County. The NDA also provides support for non-profit incubator organizations' operations, equipment, and training.

FY22 Recommended Changes	Expenditures	FTEs
FY21 Approved	2,955,913	2.00
Enhance: Staff Capacity to Support Development of County's Entrepreneurial Ecosystem - Three Program Manager II Positions	320,120	3.00
Increase Cost: FY22 Compensation Adjustment	3,477	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	3,501	0.00
FY22 Recommended	3,283,011	5.00



Business Incubator Review and Entrepreneurial Ecosystem Study

Prepared For
Montgomery County, MD

Final Report – Executive Summary

DRAFT

Axcel Innovation LLC

November 25, 2020

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Executive Summary

Introduction

The county is home to a population of companies that develop new technologies, and / or use those technologies to enable new products and services. These companies create high-value jobs and bring wealth into the economy by selling their products nationally and internationally. There are 118,000 businesses in the county that have no employees but provide income and economic independence to their owner. A large proportion of them are in growth sectors.

There has been a loss of businesses, especially small businesses, in key traded sectors since the recession. Advanced manufacturing is a target sector for the County, and manufacturing creates more indirect jobs than any other traded sector, but 20% of manufacturing businesses have been lost since 2007.

The county has technology-intensive companies spanning a wide range of technical fields and markets beyond bioscience - information technology is the county's largest sector by number of establishments. It would be prudent for the County to support entrepreneurs in all of these sectors, which include fields believed to have significant growth potential including robotics, artificial intelligence, autonomous vehicles, computational biology, sensors, material science, advanced manufacturing, financial services, clean energy, and other environmental technologies.

Support for Entrepreneurship

Since the emergence of business incubators in the 1960s, many different approaches have been adopted to encourage and support entrepreneurial activity. A key element in this has been the idea of the entrepreneurial ecosystem - representing the collection of resources, *and the connections between them*, that needs to exist for entrepreneurial activity to thrive. In some circumstances a highly effective ecosystem emerges over time without any deliberate guiding hand, but in most situations, it is the result of sustained, concerted action by both the public and private sectors. A number of groups exist that face additional challenges as entrepreneurs, and it would be advantageous to the county to create a support infrastructure that addresses their needs.

The Entrepreneurial Ecosystem

The county's entrepreneurial ecosystem has a number of key strengths, but a critical area of weakness is the lack of essential connectivity among its participants and any concerted, county-wide program to build them and more broadly strengthen and grow the ecosystem.

Many other locations are actively focusing on the development of effective entrepreneurial ecosystems both regionally and nationally. with a strong focus on technology-intensive companies – notably Frederick County, Howard County, and the City of Baltimore. Baltimore in particular has been very successful in creating a thriving entrepreneurial ecosystem than continues to grow and exhibits the diversity of resources and kinds of connectivity that are not evident in Montgomery County.

Existing Incubators

The existing incubators have historically generated valuable impacts for the county, but the facilities in Rockville and Silver Spring do not provide specialist facilities or other resources of a kind that cannot be found elsewhere in the county. The wet lab space available in Germantown to does appear to be unique and highly regarded within the county's bioscience community. There is also scope for further specialist resources to be created to address needs and opportunities including sectors beyond bioscience. In all cases, there is a need for clear paths for companies that address their specific needs at each stage of their growth.

Proposed Strategy

The primary recommendation is that the County moves from its current approach to supporting entrepreneurship, focused on specific facilities owned or leased by the County, to a strategy in which focuses on the development of the ecosystem as a whole, by increasing the:

- ◆ number of entrepreneurs active in the ecosystem, supporting them from idea generation to long-term growth, removing barriers, and creating pathways for them to succeed;



Executive Summary

- ◆ number and effectiveness of relevant resources that meet the needs of entrepreneurs within the ecosystem, directly and through partnerships;
- ◆ number and strength of connections between entrepreneurs, and between entrepreneurs and the resources available to them;
- ◆ number of connections between the county ecosystem and those in other locations;

and by:

- ◆ promoting and supporting entrepreneurship as a pathway to economic independence;
- ◆ enabling, convening, and supporting champions who will promote the ecosystem and contribute to its development;
- ◆ developing, curating, and sharing information about the ecosystem, as a resource for participants and to track its development over time.

Operational Model

An ecosystem development team, serving as a catalyst for the whole ecosystem, with responsibility for supporting county entrepreneurs from idea generation to long-term growth, connecting them to resources and tracking progress through:

- ◆ Outreach, promotion, and education – from k-12 onward.
- ◆ Entrepreneur engagement and support, building a brand for entrepreneurship in the county.
- ◆ Coordinating access to resources for individual entrepreneurs.
- ◆ Managing / providing resources directly where necessary.
- ◆ Creating and curating a knowledge / information base (including best practices in ecosystem development).

- ◆ Creating connections, communities of interest, and public and private sector partnerships.
- ◆ Ongoing proactive analysis of the ecosystem and identification of gaps / opportunities.
- ◆ Building consensus on priorities and areas for action and developing appropriate action plans with partners.
- ◆ Collecting, maintaining, and sharing metrics data.

Implicit in this approach is ensuring that all entrepreneurs have access to the resources that they need. This includes those who are economically disadvantaged and those from minorities who face unique challenges in accessing appropriate support.

The existing specialist facility in Germantown that provides wet lab space should be included within the management responsibilities of the ecosystem development team. Specific uses for the Silver Spring and Rockville facilities should be developed to address ecosystem needs including the provision of support for underserved populations

Resources

The team should be led by a CEO / Executive Director supported by a staff of four project managers and with administrative support and make use of space at the BIN incubators. This would be consistent with the level of resources deployed in comparable initiatives.

The cost for such a team is estimated to be \$925,000 per annum excluding staff benefits. This would be offset by potential savings from the re-organization of the BIN.

Impacts (Metrics)

Data will be collected and reported on an ongoing basis to track progress against all areas of the Ecosystem Development Team's activities and for development of the ecosystem as a whole.

FY22 SBDC and LEDC performance metrics

SBDC:

- One on one technical assistance to 100 County small businesses.
- Business training to 400 County residents.
- Assist 50 business with obtaining financing.
- Promote Montgomery County's small business programs, resources, LSBRP, etc.
- Offer counseling and training at various locations throughout the County.

LEDC:

- Educate at least 120 entrepreneurs through at least 12 workshops annually.
- Provide a total of at least 200 technical assistance units per year, including at least 180 technical assistance appointments to at least 85 Montgomery County businesses.
- Assist in the creation & development of 10 new business in the County.
- Provide 4 foreclosure workshops in the County to educate clients about their mortgage terms.

In addition, the LEDC contract will include a performance measure for LEDC to provide legal webinars and clinics to business clients that focus on the legal aspects of commercial leasing and related topics.

FY22 Nonprofit Village performance metrics

- Provide office workspace for nonprofit businesses.
- Provide office amenities to these business tenants such as: copier, printer, postage machine, mailboxes, utilities, telephone, high-speed internet, payroll services, etc.
- Provide training workshops at least 2x/month to at least 10 attendees per workshop.
- Provide individual business development sessions to tenants at least 10 per month, utilizing Nonprofit Village staff and outside experts as needed.

FY22 BHI performance metrics

- Post Doc to Entrepreneur White Paper and Plan of Action
- Research Center Attraction Project
- Development and Support of Global Pandemic Prevention & Biodefense Center
- Development of the Potomac Quantum Innovation Center

Executive Recommended ARPA Uses for FY21 and FY22

	FY21	FY22
Previously approved special appropriations – funding shift		
19-683 Therapeutic Youth Services	0.31	
19-684 Youth Support and Engagement Hubs	0.41	
19-690 Streeteries Winterization	1.25	
19-695 Por Nuestra Salud y Bienestar	4.62	
19-696 AAHP COVID Response	3.34	
19-709 Conference Center	2.50	
Subtotal	12.43	
Bethesda PLD Debt Service Coverage	5.90	
FY21 Estimated Tax Revenue Losses	41.10	
RELIEF Act	25.00	6.20
FY22 Budget enhancements		
CCT – Remote Proceeding Facilitators & Schedulers		0.27
HHS – Therapeutic Recreation Services		0.75
HHS – Mobile Health Clinic		0.62
HHS – Mental Health Services for MCPS Students & Families		3.60
HHS – Rapid Rehousing Expansion		0.25
HHS – Rental Assistance		0.49
CVB – Backfill Revenue Shortfall Hotel/Motel Tax		1.00
Incubator NDA – Entrepreneurship Ecosystem		0.32
MCEDC – Entrepreneurship Development		0.30
MCEDC – White Flint Project		0.25
MCEDC – Inclusive Economy		0.10
MCEDC – Entrepreneurs in Residence		0.25
MCEDC – Talent Pipeline/Workforce Development		0.10
Working Families Income Supplement		20.00
DTS – FiberNet2 Maintenance		0.50
Cable – FiberNet3 Build Out		0.70
Cable – Digital Equity		0.10
Subtotal		30.41
Total		36.61
Unallocated		82.73