



Committee: ECON
Committee Review: Completed
Staff: Marlene Michaelson, Executive Director
Purpose: To make preliminary decisions – straw vote expected
Keywords: Incubator, Economic Development

AGENDA ITEM #6
 May 11, 2023
Worksession

SUBJECT

FY24 Operating Budget: Incubator Programs – Economic Development – Partnerships Non-Departmental Account

EXPECTED ATTENDEES

None

FY24 COUNTY EXECUTIVE RECOMMENDATION

	FY23 Approved*	FY24 CE Recommended	Change from FY23 Approved
General Fund	\$3,037,891	\$3,162,622	4.1%
Personnel Costs	\$281,262 5.00 FTEs	\$307,441 5.00 FTEs	9.3% 0 FTEs
Operating Costs	\$2,756,629	\$2,855,181	3.6%
Total Expenditures (All Funds)	\$3,037,891 5.00 FTEs	\$3,162,622 5.00 FTEs	4.1% 0

COMMITTEE RECOMMENDATIONS

- Reduce new FY24 funding of \$10,000 for technical assistance for incubators and put it on the reconciliation list as a priority.

SUMMARY OF KEY ISSUES

- The three new positions added during the FY23 budget are in the final stages of being filled. The Committee will monitor use of the incubators and the impact of the additional staffing.

This report contains:

Staff Report	Pages 1-5
Executive recommended FY23 Incubator NDA budge	© 1
Incubator PowerPoint Presentation (January 2023)	© 3
Executive Summary of December 2020 Incubator Study	© 9

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MEMORANDUM

April 25, 2023

TO: Economic Development (ECON) Committee

FROM: Marlene Michaelson, Executive Director

SUBJECT: **FY24 Operating Budget – Incubator Programs – Economic Development Partnerships Non-Departmental Account (Incubators NDA)**

PURPOSE: Make recommendations for Council consideration

Expected Participants:

Jake Weissmann, Assistant Chief Administrative Officer, Office of the County Executive (CEX)
Gene Smith, Business Center Team Manager, (CEX)
Julie Knight, Fiscal and Policy Analyst, Office of Management and Budget (OMB)

Summary of FY24 Recommended Budget – Incubators NDA

	FY23 Approved*	FY24 CE Recommended	Change from FY23 Approved
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*The FY23 approved budget is shown without the \$1,675,000 that is proposed to be shifted to the Small Business NDA.

I. Budget Overview

The Executive’s recommendation for this budget is shown on ©1-2. 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. For FY24 the Executive has recommended shifting \$1,675,000 into a new NDA for Small Business Support Services.

Table 1 details the Executive’s recommended changes for this budget in FY24.

Table 1: Executive Recommended FY23 Changes

Description	Expenditures	FTEs
FY23 Approved	\$4,228,971	5.0
Increase: FY24 compensation adjustment	\$23,050	
Increase: Annualization of FY22 personnel costs	\$12	0.0
Increase: Specialized Training- Technical Assistance for Incubator Tenants	\$10,000	
Shift: Funding to Small Business Support Services NDA	(\$1,675,000)	
Multi-program adjustments	\$22,841	0.0
FY24 Recommended	\$2,669,874	5.0

Table 2 below summarizes the recommended funding by incubator and for staffing for FY24 compared to FY23 in this NDA.

Table 2: Comparison of FY23 and FY24 Allocation of Funding for Incubator NDA

Facility/ Staff	FY23 Funding	FY24 Funding
Incubators		
Germantown	\$1,014,833	\$1,014,833
Rockville	\$485,174	\$485,174
Silver Spring	\$546,174	\$546,174
National Cybersecurity Center	\$25,000	\$25,000
Staff		
1.0 FTE for oversight support	\$130,362	\$142,376
1.0 FTE for incubator management	\$164,578	\$179,190
3.0 FTE for incubator support, business development, marketing, programming, etc.	\$247,950	\$267,130
Programs		
Technical Assistance for Incubator Tenants	\$0	\$10,000
Total	\$2,614,071	\$2,669,877

II. Incubators Review

A. Incubators

The County owns or leases four facilities in the County – three incubators and the National Cybersecurity Center of Excellence. The County’s approach and management of the incubators has fluctuated during the last few years. Below is a brief summary of the County’s approach.

- Pre-FY17. The County supported all operating expenses, and DED managed the programs and portfolio of the incubators.
- FY17-FY22. The County supported certain operating expenses for each incubator, but the incubator’s programs and tenant portfolio were managed third parties.
- FY23-FY24. The County will support all operating expenses, and the Business Center manages the programs and portfolio of the incubators.

The County also funded two FTEs in this budget to provide support for financial management (e.g., invoices, collecting rent, etc.) and oversight of the contracts from FY17-FY23. In FY24, an additional three positions were added to the existing two positions to provide tours for and screen prospective tenants, prep prospects for the Tenant Review Committee, and make sure new tenants are fully and accurately “on-boarded” into the incubator. They will also be responsible for interacting with current tenants (providing strategic introductions, support, and tracking progress, and encouraging graduation when appropriate).

Attached on © 3-8 is a presentation give to the MCEDC Board in January 2023 updating them on the incubators.

1. *2020 Incubator Study*

A study of the County’s incubators was completed in 2020 and presented to the Council’s Planning, Housing, and Economic Development Committee. The Executive Summary for the study is attached at ©9-11. This study informed the Executive’s recommendation for the FY23 budget to add additional positions. The 2020 Incubator Study noted 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 adopted FY23 budget added 3.00 FTEs to support the recommendations of this study by adding a new manager at each incubator. The positions have not yet been filled.

2. *Germantown Innovation Center (GIC)*

The Germantown Innovation Center has 32,000 square feet of office space and 12 wet labs operated in partnership with Montgomery College. It has space for 25-35 companies. The strategic focus of this incubator is the life sciences.

Executive staff estimates that the GIC will require approximately \$1,014,833 in appropriation for expenditures in FY24. The incubator will receive approximately \$528,204 in revenues from tenant payments. **Based on these estimates, the County will subsidize this facility's operations at approximately \$486,629 in FY23.** The GIC's operations are supported entirely through this NDA.

The January 2023 update to MCEDC indicated that there are currently 9 resident companies and 5 virtual ones. Overall, it is 73% occupied; the web labs are fully occupied. The Committee may want to ask about the potential for developing additional web lab space.

3. *Rockville Innovation Center (RIC)*

The Rockville Innovation Center has 23,000 square feet of office space and is located in Rockville Town Center. It has space for 20-30 companies. The strategic focus of this incubator is on tech companies focusing on cybersecurity, health, and software.

Executive staff estimates that the RIC will require approximately \$485,174 in appropriation for expenditures in FY24. It will receive approximately \$301,320 in revenues from tenant payments. **Based on these estimates, the County will subsidize this facility's operations at approximately \$183,854 in FY24.** In addition to the appropriation in this NDA, the RIC's mortgage payments are appropriated in the County debt service budget.

The January 2023 update to MCEDC indicated that there are currently 19 resident companies and 2 virtual ones. It is 58% occupied.

4. *Silver Spring Innovation Center (SSIC)*

The Silver Spring Innovation Center has 20,000 square feet of office space and is in downtown Silver Spring. It has space for 20-25 companies. The strategic focus of this incubator is on companies focusing on the procurement process.

Executive staff estimates that the SSIC will require approximately \$546,174 in appropriation for expenditures in FY24. The SSIC will receive approximately \$128,064 in revenues from tenant payments. **Based on these estimates, the County will subsidize this facility's operations at approximately \$418,110 in FY24.** The SSIC's operations are supported entirely through this NDA.

The January 2023 update to MCEDC indicated that there are currently 12 resident companies and 8 virtual ones. It is 53% occupied.

5. *National Cybersecurity Center of Excellence (NCCoE)*

The County, as owner of the land and facilities, 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 \$25,000 capital reserve in FY24.

III. Issues for Discussion

A. Vacancies

The three new positions are still waiting to be filled. In the first part of FY23, Executive staff created and finalized positions descriptions and the positions were posted in February 2023. The Business Center Team indicated that they are working diligently to vet candidates and are doing final interviews this month. The Committee may want an update on efforts to fill these positions. If there is any doubt about filling these positions before by the beginning of the fiscal year, there should be a reduction for lapse.

B. Reconciliation List

The only addition to the budget other than compensations is “Specialized Training – Technical Assistance for Incubator Tenants.” Staff recommends that this increase be placed on the reconciliation list as a priority.

C. Racial Equity and Social Justice

The Office of Racial Equity and Social Justice did not conduct a review of NDAs for the FY24 budget. The Committee may want to ask about how racial equity and social justice issues are being addressed as the Executive recruits companies to locate at or use the services of the incubators.

This packet contains:

	<u>Circle #</u>
Executive recommended FY23 Incubator NDA budget	1
Incubator PowerPoint Presentation (January 2023)	3
Executive Summary of December 2020 Incubator Study	9

FY24 Recommended Changes	Expenditures	FTEs
FY24 Recommended	166,860	0.00

☀ Homeowners' Association Road Maintenance Reimburse

This NDA provides a partial reimbursement to homeowners' associations (HOAs) for their maintenance of certain privately-owned roadways. The payment is currently restricted to through roadways, accessible to the public, which are one-quarter mile or longer and which provide vehicular access to more than four dwelling units. In FY97, an Executive Regulation was enacted allowing homeowners' associations to request that their roadways be deemed "private maintenance roads." This designation qualifies the HOAs for State reimbursement of their roadway maintenance costs. The County annually submits to the State its estimate of reimbursable miles, including those accepted as private maintenance roads. The State then reimburses the County and, subsequently, the County forwards the funds to HOAs.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	62,089	0.00
FY24 Recommended	62,089	0.00

☀ Housing Opportunities Commission

The Housing Opportunities Commission of Montgomery County (HOC) is a public body corporate and politic duly organized under Division II of the Housing and Community Development Article of the Annotated Code of Maryland, commonly known as the Housing Authorities Law. The Commission acts as a builder, developer, financier, owner, and manager of housing for people of low- and moderate- (eligible) income. The Commission also provides eligible families and individuals with affordable housing and supportive services.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	7,633,168	0.00
Increase Cost: Incremental FY24 Compensation	282,566	0.00
Increase Cost: FY24 Rental License Fee Increase (\$5 per unit) plus additional 112 Units at Battery Lane	56,767	0.00
FY24 Recommended	7,972,501	0.00

☀ Inauguration and Transition

The Montgomery County Charter provides for the quadrennial election of a County Executive and County Council. This NDA provides for a ceremony and smooth transition of the County Executive and County Council every four years.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	50,000	0.00
Decrease Cost: Quadrennial Funding for Inauguration and Transition Expenses Removed for FY24	(50,000)	0.00
FY24 Recommended	0	0.00

☀ Incubator Programs

This NDA provides for facility lease payments, portfolio management services, and program funding for the County's Business Innovation Network (BIN) facilities. The BIN consists of three physical locations: the Silver Spring Innovation Center on Georgia Avenue (owned by the County), the Rockville Innovation Center in Rockville Town Square (owned by the County), and the Germantown Innovation Center on the campus of Montgomery College (under lease from the College Foundation until 2036). This NDA also supports the National Cybersecurity of Excellence in Shady Grove, a partnership between the National Institutes of Technology, the State of Maryland, and Montgomery County.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	4,288,971	5.00
Increase Cost: FY24 Compensation Adjustment	23,050	0.00
Increase Cost: Specialized Training - Technical Assistance for Incubator Tenants	10,000	0.00
Increase Cost: Annualization of FY23 Compensation Increases	12	0.00
Shift: Funding to Small Business Support Services NDA	(1,675,000)	0.00

FY24 Recommended Changes	Expenditures	FTEs
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	22,841	0.00
FY24 Recommended	2,669,874	5.00

☀ Independent Audit

Section 315 of the County Charter requires the County Council to contract with a Certified Public Accountant for an independent post audit of all financial records and actions of the County government, its officials, and employees. By County Resolution, the Office of Legislative Oversight is the designated administrator for this contract, which also includes an independent audit of the basic financial statement of the Employee Retirement Plans; an independent audit of the Consolidated Retiree Health Benefits Trust; an independent audit of the basic financial statements of the Montgomery County Union Employees Deferred Compensation Plan; and additional services related to reviews, tests, and certifications.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	427,882	0.15
Increase Cost: Annualization of FY23 Compensation Increases	3,069	0.00
Increase Cost: FY24 Compensation Adjustment	689	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.	(130)	0.00
FY24 Recommended	431,510	0.15

☀ Interagency Technology, Policy, and Coordination Commission

This NDA supports the operation of the Interagency Technology Policy and Coordination Committee (ITPCC). The ITPCC was chartered by the Montgomery County Council to promote strategic planning and coordination in the use of information technology across County agencies. The ITPCC reports biannually to the County Council. By regularly convening the agencies' chief executive and chief information officers, the ITPCC provides an effective forum for the coordinated implementation of technology policies and guidelines. Additionally, the ITPCC facilitates interagency communication, the evaluation and sharing of new technologies, and advises policy makers on the strategic uses of technology.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	3,000	0.00
FY24 Recommended	3,000	0.00

☀ KID Museum

KID Museum is a Montgomery County-based non-profit organization that provides experiential Science, Technology, Engineering, and Mathematics (STEM), and cultural learning for children and families in the region. In close collaboration with Montgomery County Public Schools (MCPS) and local youth development organizations, KID Museum has developed an innovative and highly effective array of educational programs to support youth of diverse backgrounds to gain critical academic and social-emotional skills, with a focus on STEM, multiculturalism, and the future of work. KID Museum's team of professional educators deliver programs directly to youth, and supports classroom teachers with curriculum and professional development to bring innovative approaches to teaching and learning into the classroom and out-of-school time settings.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	1,596,000	0.00
Shift: Community Grants Moved From the Community Grants Non-Departmental Account to the KID Museum Non-Departmental Account	216,918	0.00
Increase Cost: Three Percent Inflationary Adjustment to Non-Profit Service Provider Contracts	47,880	0.00
FY24 Recommended	1,860,798	0.00

☀ Labor Management Relations Committee

The Labor Management Relations Committee (LMRC) was established to foster cooperative labor relations between the County and

Montgomery County Innovation Centers



Our Current Facilities - 2023

- ❖ ***Silver Spring Innovation Center (SSIC)*** (County owned)
20,000 sf of office space in downtown Silver Spring, 20-25 companies, near Metro.
- ❖ ***Rockville Innovation Center (RIC)*** (County owned)
23,000 sf of office space in Rockville Town Square near Metro, 20-30 companies
- ❖ ***Germantown Innovation Center (GIC)*** (County leased until 2026)
32,000 sf of office and 12 wet labs in partnership with Montgomery College, 25-35 companies



CE Marc Elrich

Study of Innovation Centers completed in 2020 with new CE, by Axcel Innovation, a nationally recognized subject matter expert.

Significant Recommendations: focus Silver Spring on MFD entrepreneurs and add three staff members; one on site for each facility. In addition, focus more broadly on the “ecosystem”.

MCEDC conducted a review of the study, visited all three facilities as well as other similar programs in the area, and concurred with the recommendations of Axcel Innovation.

Today: we will be posting three new positions shortly. The County Council appropriated funding to launch MFD focused programming and partners at the SSIC



Our Portfolio as of 1/1/2023

- SSIC: 12 resident companies, 8 virtual companies, 53% occupied
The property is located within a HUBzone
Strategic focus: companies focusing on procurement
- RIC: 19 resident companies, 2 virtual companies, 58% occupied
Strategic focus: tech companies focusing on cyber, health and software
- GIC: 9 companies, 5 virtual companies, 73% occupied, all vacant space is office, 12 wet labs are fully occupied
Strategic focus: life science



A year in review - 2022

Graduations (5): Seraxis, Intelligent Fusion, Akan, Zalgen, Amador, collectively 89 employees, \$100 million of venture capital.
(All moved into commercial space in the area)

New Members (10): BioHippo, EPR Tech., Global Payex, Kairos, Micro Recycling Systems, Main Engineering, Parymon, Youth for Progress, Ataia, Rapigen; collectively 12 employees

Early Terminations(4): Ataia, AltaQ, BnH Research, Epigenomics
(Did not move into commercial space in the area)

Programs (4): Two CEO Accelerator Programs, 10X Genomics Presentation, Life Science Real Estate Overview,



How does MCEDC fit in? (very well!)

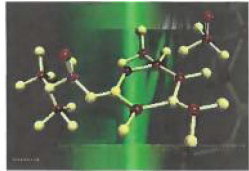
MCEDC sits on the “Tenant Review Committee” to both meet and vet new companies AND receive updates from existing portfolio companies.

MCEDC is a solid referral source for new companies and understand the Centers are used to develop young, emerging companies and also as swing space for larger (or international) companies stepping into the market.

MCEDC’s rolodex of contacts and resources are often very helpful to individual companies. We never hesitate to reach out the MCEDC to seek their assistance.

MCEDC’s clear knowledge of the Centers will enable the team to further develop a well-connected ecosystem.





Business Incubator Review and Entrepreneurial Ecosystem Study

Prepared For

Montgomery County, MD

Final Report – Executive Summary

Axcel Innovation LLC

December 10, 2020

3445 Seminole Trail, #289 ♦ Charlottesville ♦ VA 22911
info@axcel.us ♦ www.axcelinnovation.com

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 spanning a wide range of technical fields and markets. These technology-intensive companies create high-value jobs and bring wealth into the economy by selling their products nationally and internationally. There are also 118,000 businesses in the county that have no employees but provide income and economic independence to their owner, a large proportion of which are also technology-driven.

There has been a loss of businesses, especially small businesses, in key traded sectors since the recession. Advanced manufacturing, for example, 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.

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, and 'green' energy technologies.

A number of disadvantaged groups also exist that often face additional challenges as entrepreneurs, and it would be advantageous to the county to ensure that their particular needs are addressed.

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 development 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.

The Entrepreneurial Ecosystem

The county's entrepreneurial ecosystem has a number of strengths, but a critical area of weakness is the lack of essential connectivity among its participants and any concerted, county-wide program to build these connections 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 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 in 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, leveraging partnerships to:

- ◆ Increase 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

- ◆ Increase the number and effectiveness of relevant resources that meet the needs of entrepreneurs, directly and through partnerships.
- ◆ Increase the number and strength of connections between entrepreneurs, and between entrepreneurs and the available resources.
- ◆ Increase the number of connections between the county ecosystem, the wider regional ecosystem, and those in other locations.

Operational Model

The proposed approach to achieving this is to create an Ecosystem Development Team, serving as a catalyst for the whole ecosystem, with responsibility for ensuring that support is available to county entrepreneurs from idea generation to long-term growth, through:

- ◆ Outreach, promotion, and education – promoting and supporting entrepreneurship as a pathway to economic independence from K-12 onward, and enabling, convening, and supporting champions who will promote the ecosystem and contribute to its development and building a brand for entrepreneurship in the county.
- ◆ Entrepreneur engagement and support, coordinating access to resources for individual entrepreneurs.
- ◆ Creating and curating a knowledge / information base (including best practices in ecosystem development).
- ◆ Creating connections, communities of interest, and public and private sector partnerships.
- ◆ Undertaking 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, and only managing / providing resources directly where it is the most logical solution.
- ◆ Developing, curating, and sharing information about the ecosystem, as a resource for participants and to track its development over time.

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.

It is also implicit that in some cases the county may need to develop and support specific resources where partnership-based approaches are not viable, or to pilot new approaches to demonstrate their viability.

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

Resources

The team should be led by a CEO / Executive Director with a team of four project managers, with appropriate administrative support, and operate from space available 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 / repurposing of the existing incubators.

Impacts (Metrics)

Data should 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, a broadly-based set of short, medium, and long-term metrics.