


MEMORANDUM

April 29, 2019

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

FROM: Gene Smith, Legislative Analyst 

SUBJECT: FY20 Operating Budget: Incubator Programs – Economic Development Partnership Non-Departmental Account (NDA)

PURPOSE: Review and make recommendation to the Council

Those expected for this worksession:

Mike Coveyou, Acting Director, Department of Finance (Finance)
Robert Hagedoorn, Division Chief for Fiscal Management, Finance
Laurie Boyer, Economic Development Manager, Finance
Pofen Salem, Office of Management and Budget

Budget Summary

The Executive recommends \$2,592,917 for the Incubator Programs – Economic Development Partnership NDA, a decrease of \$992,054 or 27.7% from FY19. This recommendation includes several changes to this budget.

- Shifting \$1,070,000 in expenditures to the Debt Service budget for the County's incubators;
- Increasing \$716,658 in expenditures to account for income from the County's incubators;
- Adds 1.0 full-time equivalent (FTE) to support the County's incubators; and
- Shifts \$520,323 to other County offices to implement economic development in the County.

Council Staff Recommendation

Approve the Executive's FY20 recommendation of \$2,592,917 for this NDA.

I. 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. The Executive

recommends several changes to the FY20 budget to realign and repurpose funding in this NDA. The table below details the recommended changes.

FY20 Recommended Changes

Description	Expenditures	FTEs
FY19 Approved	\$3,584,971	0.0
Re-align: Actual operating expenses for incubators	\$716,658	0.0
Increase: Staff support for oversight of incubators	\$111,288	1.0
Shift: Seed funding to support creation of County-based Kitchen incubator	(\$40,740)	0.0
Shift: County funds to create a Biomanufacturing Industry Center	(\$50,000)	0.0
Decrease: BioHealth Innovation contract	(\$229,667)	0.0
Shift: County funds to support a full-scale Regional Business Services Hub	(\$429,583)	0.0
Shift: Debt service for County incubators	(\$1,070,000)	0.0
FY20 Recommended	\$2,592,917	1.0

The table below summarizes the recommended funding by incubator and by program for FY20 compared to FY19 in this NDA.

Comparison of FY19 and FY20 Allocation of Funding for Incubator NDA

Facility or Program	FY19 Funding	FY20 Funding
<i>Incubators</i>		
Germantown	\$709,971	\$1,158,455
National Cybersecurity of Excellence	\$685,000	\$25,000
Rockville	\$580,000	\$700,174
Silver Spring	\$50,000	\$50,000
<i>Programs</i>		
Wheaton Technical Assistance Program (“TAP”)	\$360,000	\$208,000
Small business technical assistance		
Maryland Small Business Development Ctr. (SBDC)	\$30,000	\$30,000
Latino Economic Development Ctr. (LEDC)	\$125,000	\$125,000
BHI	\$750,000	\$0
Nonprofit Incubator	\$185,000	\$185,000
<i>Staff</i>		
1.0 FTE add for oversight support	\$0	\$111,288
Total	\$3,584,971	\$2,592,917

The Executive’s recommendations can be summarized as follows:

- Shifts funding to debt service for actual debt service payments;
- Shifts funding to other County budgets for entrepreneurial support;
- Aligns incubator expenditures based on actual expenditures and revenues; and
- Aligns technical assistance programs with actual expenditures.

II. Facilities and Programs

A. Incubators

The BIN's facilities and programming were managed and administered by DED before FY17. The current model for the BIN is that the County will fund certain obligations for the BIN facilities, including any debt payments, and a third-party operator will provide management and programmatic support for the BIN tenants. Below are highlights of the FY20 recommended budget for each incubator.

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 Workplaces ("Launch") in FY19 to provide programmatic support to the tenants. Finance plans to issue a Request for Proposals ("RFP") to find a long-term operator in FY20; however, this is dependent on the Executive's overall direction for the incubators. Finance estimates that the GIC will require approximately \$1.16 million in appropriation for expenditures in FY20. It will receive approximately \$544,000 in revenues from tenant payments. Based on these estimates, the County will subsidize this facility's operations at approximately \$614,000 in FY20. 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. Finance plans to issue an RFP to find a long-term operator in FY20; however, this is dependent on the Executive's overall direction for the incubators. Finance estimates that the RIC will require approximately \$700,000 in appropriation for expenditures in FY20. It will receive approximately \$379,000 in revenues from tenant payments. Based on these estimates, the County will subsidize this facility's operations at approximately \$321,000 in FY20. In addition to the appropriation in this NDA, the RIC's mortgage payments will be transferred to the 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 expenditures for the facility's operations and will receive the revenue from the tenants to offset those costs.

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 FY20.

B. Wheaton TAP

The Wheaton TAP funding supports the ongoing 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 will be funded in the Economic Development Fund. The FY20 recommended appropriation for this program is \$208,000. **The reduction is based on the contracted services and actual need in FY18 and FY19 and is not anticipated to impact the technical service available to small businesses in Wheaton.** In addition, Finance is working with the service delivery partners to expand services provided by this funding to other locations in the County.

C. Small Business Technical Assistance

The Executive recommended shifting certain funding for LEDC and SBDC from Finance to this NDA in FY18, and the Council supported this recommendation. In FY18 and FY19, this funding was “combined on paper” with the Wheaton TAP because the same services providers were used in Wheaton. Finance shows these amounts separated in FY20 to distinguish the differences between the funding purposes.

Council staff believes that the County’s contracts to support small businesses should be shifted to the County offices that are in regular contact with the County’s small businesses. This will ensure that the County’s service delivery is best aligned with the current services required. The newly created Regional Business Services Hub Program may be a good choice, and the Council should evaluate whether this new program may be a better vehicle to administer these service delivery contracts after FY20.

D. Nonprofit Village

The Executive recommended funding for this contract in FY19 because of the organization’s activities. The recommendation included \$85,000 for the base contract and \$100,000 was added for increase costs due to the organization’s move.¹ See the February invoice for this contract on ©2. Items 1.B. are all those allocated for the one-time moving expenditures. **The Executive recommends retaining the appropriation for these one-time expenditures but repurposing them in FY20 to expand the organization’s services.** Finance is still working with the organization to determine which services to augment.

Council staff recommends that the budget resolution include language requiring the Executive to provide an update to the Council about the purpose of the \$100,000 in FY20 before funds are disbursed.

E. Additional staff

The Executive recommends adding a new position, one full-time equivalent (FTE), to the Incubator NDA. Finance created this term position in FY19 with excess appropriation. This position

¹ https://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=14998&meta_id=156113.

will be a Program Manager II and will provide “contract management and oversight and control of financial processes as they relate to the County assuming control of billing & payments of incubator tenants in the GIC and RIC.” This term position will provide support for existing work with the County’s facilities, not for any new work based on the Executive’s study of the County incubators.

F. Other Transfers

The Executive recommends several transfers to this NDA. Below is a brief discussion of each.

Debt service. The County must pay debt service for the NCCoE and for the RIC, and this transfer funds those costs in the appropriate budget. Executive staff note that actual debt service will be \$928,000 for both properties. **An amendment is expected to repurpose the difference of \$142,000 and use it to fund the incubator study in FY20.**

Kitchen Incubator. See ©3 for a description of this transfer to the Office of the County Executive (CEX). **This funding is “seed” funding for the feasibility of a kitchen incubator.** However, once the funding is transferred to the CEX, this amount will be allotted to the CEX in future years and may be utilized for other purposes.

Biomanufacturing Industry Cluster. See ©4 for a description of this transfer to the CEX. The University of Maryland (UMD) will create this center on the campus of Universities at Shady Grove. This is a multi-year commitment from the County, based on milestones achieved by UMD.

Business Services Hub. See ©5 for a description of this transfer to Community Engagement Cluster.

Council staff recommends approval of the Executive’s recommendation for this NDA.

This packet contains:

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Nonprofit Village February Invoice overview	2
Executive staff description of the Kitchen Incubator	3
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☀ Incubator Programs - Economic Development Partnership

This NDA provides for facility lease payments and facility, 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 Wheaton and 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, 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 for operations, equipment, and training.

FY20 Recommended Changes	Expenditures	FTEs
FY19 Approved	3,584,971	0.00
Re-align: Actual Operating Expenses for County Incubator Programs	716,658	0.00
Increase Cost: Provide Staff Support for Oversight and Management of County Incubator Contracts	111,288	1.00
Shift: Provide Seed Funding to Support Creation of a County-based Kitchen Incubator/Food Hall Shifted to the Office of County Executive (CEX)	(40,740)	0.00
Shift: Provide County Funds to Create a Biomanufacturing Industry Center in the County Supported by the National Institute for Innovation in Manufacturing Biopharmaceuticals (NIMBL) Shifted to the CEX	(50,000)	0.00
Decrease Cost: Continue FY19 Savings Plan to Reflect Reduction in the Biohealth Innovation Inc. Contract and Use Funds to Support Other County Programs	(229,577)	0.00
Shift: Funding to Support a Full-Scale Regional Business Services Hub Program Shifted to the Community Engagement Cluster	(429,583)	0.00
Shift: Debt Service for Rockville Incubator and NCCoE Shifted to the Debt Service Fund.	(1,070,000)	0.00
FY20 Recommended	2,692,917	1.00

Invoice for Cost Reimbursement Contract

Nonprofit Village
 15800 Crabbe Branch Way, Suite 300
 Rockville, MD 20855
 Invoice # 2019-8

Contract Number 1094408
 PO Number 1096063
 Invoice Period Supplemental Invoice
 Invoice Date 3/25/2019

Description	Contract Reference	Contract Budget	Beginning Balance	Current Invoice Expenses	YTD Expenditures	Balance Remaining
Member services	1.A.2.	\$ 20,332.48	\$ 20,332.48	\$ 824.40	\$ 14,463.61	\$ 5,868.87
Staff (training workshops)	1.A.3.b.	\$ 15,000.00	\$ 15,000.00	\$ 1,250.00	\$ 10,000.00	\$ 5,000.00
Accelerator Programs	1.A.4.a.	\$ 15,000.00	\$ 15,000.00	\$ 1,250.00	\$ 8,750.00	\$ 6,250.00
Staff (board and compliance)	1.A.4.b.	\$ 15,000.00	\$ 15,000.00	\$ 1,250.00	\$ 8,750.00	\$ 6,250.00
Office Equipment	1.B.1.	\$ 11,036.94	\$ 11,036.94	\$ -	\$ 11,036.94	\$ -
Office Furniture	1.B.2.	\$ 20,000.00	\$ 20,000.00	\$ -	\$ 20,000.00	\$ -
Audiovisual Equipment	1.B.3.	\$ 12,950.58	\$ 12,950.58	\$ -	\$ 12,950.58	\$ -
Onsite IT Support	1.B.4.	\$ 10,000.00	\$ 10,000.00	\$ -	\$ 10,000.00	\$ -
Tenant Marketing Services	1.B.5.	\$ 9,680.00	\$ 9,680.00	\$ -	\$ 9,680.00	\$ -
Rent	1.B.6.	\$ 36,000.00	\$ 36,000.00	\$ -	\$ 36,000.00	\$ -
Cabling	1.B.7.	\$ 20,000.00	\$ 20,000.00	\$ -	\$ 20,000.00	\$ -
Total Expenses		\$ 185,000.00	\$ 185,000.00	\$ 4,574.40	\$ 161,631.13	\$ 23,368.87

Amount due this invoice: \$ 4,574.40

Vendor Signature: [Signature]
 Vendor Title: Executive Director

Date: 3/26/19

Approved by: [Signature]
 Laurie M. Boyer, Contract Administrator, Montgomery County Department of Finance

Date: 4/5/19

Receipt #404424
 Stephanie Sayer 4/3/19

Reconciled to Contract - Stephanie Sayer 4/2/19

- *Can Finance/OMB provide a description of the Kitchen Incubator, including general program description, explanation for the shift to CEX, anticipated annual funding, and proposed location?*

The proposed food hall and market will create a replicable model of aligned workforce and economic development. It is expected to feature up to 20 food and craft businesses – all owned and run by Montgomery County-based entrepreneurs. This will be coupled with a paid, year-long hospitality workforce development program for residents who are ready to begin the next chapter of their lives. The “incubation” concept comes into play as it is expected that these food culinary businesses will move from the food hall/market into the community within approximately three years. It is projected that the proposed facility will also contain banquet space for events to be catered by companies in the food hall/market.

The first phase of this project is designed to determine its feasibility; thus, the \$40,740 contract with Montgomery County Food Hall Market, Inc. Issues to be investigated will include, but not be limited to the following:

- Through focus groups, identify the precise needs of both businesses and job trainees in this endeavor and related hospitality/food service entrepreneurial and job training efforts;
- Develop the organizational structure for the delivery of services, including any assistance needed from other organizations;
- Complete market analyses for the Food Hall/Market and the Culinary Job Training Program components;
- Develop needed capital and operating pro formas and identify resources for both purposes;
- Pursue the feasibility of potential locations, including an examination of financial and physical issues; and
- Determine the potential of replicating the proposed model and identify the factors that would need to be considered.

As this project is in the feasibility stage and will require input from multiple disciplines – financial, land-use, workforce development and community placemaking – its first phase will be managed from the County Executive’s Office. Should it be determined that there is an ongoing role for the County in this endeavor, the appropriate agency will be identified.

Can Finance/OMB provide a description of the Biomanufacturing Industry Center, including general program description, explanation for the shift to CEX, anticipated annual funding and proposed location?

The National Institute for Innovation in Manufacturing Biopharmaceuticals (NIIMBL) is a public-private partnership dedicated to advancing biopharmaceutical manufacturing innovation and workforce development.

NIIMBL operates from the University of Delaware. It is one of 14 institutes in the Manufacturing USA network, which is funded through a \$70 million cooperative agreement with the National Institute of Standards and Technology. Its mission is to collaborate with industry, academia, non-profits and government agencies on innovative manufacturing technologies that bring lifesaving and life-enhancing products to market faster.

In support of this initiative and efforts to attract and retain biotechnology companies in Montgomery County and the State, the University of Maryland will create a Biomanufacturing Industry Center (BIC) at the Institute for Bioscience and Biotechnology Research (IBBR), located on the campus of the Universities at Shady Grove. The BIC will provide companies with access to state-of-the-art sequencing services designed to promote advances in genomics and molecular biology research. More importantly, it will provide training space -- including a NIIMBL dedicated mock Good Manufacturing Practice ("mGMP") facility -- a unique resource in the Mid-Atlantic Region for training GMP fundamentals at scale. The Center will be created by renovating and upgrading approximately 8,000sf of space in Building #2 of the IBBR at Shady Grove.

Costs associated with this effort are projected to be approximately \$5.6 million, which includes tenant improvements, furniture, fixtures and equipment costs. Funding sources for the project are as follows:

University of Maryland-College Park, University of Maryland-Baltimore and the National Institute of Standards and Technology	\$3,400,000
Maryland Department of Commerce (MEDAAF)	\$2,000,000
Montgomery County	\$ 200,000

This will be a multi-year disbursement, providing an additional 10% of what the State funds on an annual basis through its MEDAAF award. Year one disbursement (\$50,000) will be contingent on completion of the renovations and proof that the project costs have been expended. Disbursements in years two through five (\$40,000 annually for years two through four and \$30,000 for the final year) will be dependent on the achievement of milestones.

While the State will be providing its funding through a Maryland Economic Development Assistance Authority and Fund (MEDAAF) award, County law prohibits the disbursement of Economic Development Fund monies to a State agency or an entity controlled by a State agency. The University of Maryland Enterprise Corporation, the project manager and funds recipient, is clearly controlled by a State agency; thus, why funding is not coming through the EDF and why the shift to the County Executive's office.

Can CEX provide a description of the Business Services Hub, including general program description and explanation for the shift to CEX?

The Business Resource Hub initiative (tentatively branded as ***Business Connect***) is a program of the Business Solutions Group.

This initiative supports the County Executive's priority, ***A Growing Economy***, by opening support centers to help new and existing businesses.

By leveraging the Regional Services Centers (RSCs), the County will deliver services to businesses closer to where they are located. The Business Solutions Group will partner with Regional Service Center Directors to provide on-site staff support to manage resources. In addition, County departments including Permitting, Procurement and Libraries have committed to supporting the program. The Business Solutions Group will also build partnerships with chambers of commerce in the regional areas to increase awareness and resources.

Business services will include general business training, one-on-one counseling and workshops on county processes such as procurement and permitting.

There has been a "soft launch" of a Business Resource Hub at the Upcounty Regional Services Center where the initiative is being piloted. The program will be rolled out to all regional services centers through FY2020.

Business Resource Hubs will:

- Deliver at least two business training sessions per month.
- Make 8 hours of individual counseling available per month.
- Offer one county-specific training program per month.

It is expected that this approach will facilitate more visits to businesses countywide and result in improved customer service. In addition, it will reduce the time it takes for information and services to reach business owners, improving the business-friendly image of the County and accelerating the path to success for the business community.