

Transforming Manufacturing in a Digital Economy Workgroup (Making it in Maryland)

February 14, 2022 10:00am-12:00pm

Meeting Minutes

Workgroup Members in Attendance:

- Delegate Lily Qi, Chair
- Todd Sabin, Maryland Commerce
- Erin Roth, Maryland Labor
- Lance Schine, Maryland DOIT
- Mike Galiazzo, RMI
- Lindsay Ryan, USM
- Wynne Briscoe, SBDC
- Suzy Ganz, MMAB
- Kelly Koermer, MACC
- Chris Cosgrove, RAMP MD
- Mike Kelleher, Maryland MEP
- Adam Porter, Fraunhofer USA
- Ken Sanchez, Chesapeake Specialty Products
- Jack Weber, Uptown Press
- April Richardson, Food Opportunity
- Irnande Altema, MICUA
- Bob Mather, Stanley Black & Decker
- Donna Edwards, MD-DC ALF-CIO
- Delegate Mautz

Staff:

- Heather Gramm, Maryland Commerce
- Michael Siers, Maryland Commerce
- Richard Clinch, Jacob France Institute

Public:

- Katie Hardy, Office of Delegate Qi
- Dr. MJ Bishop, Associate Vice Chancellor and Director, USM Center for Academic Innovation

Welcome:

Delegate Qi gave welcoming remarks and welcomed Michael Siers from the Maryland Department of Commerce as the new staff to the workgroup. Delegate Qi noted that a vote on meeting minutes would be held at the end of the meeting to ensure members had proper time to review.

2022 Legislative Update

Delegate Qi gave an update on two pieces of legislation with relevance to the workgroup. Delegate Qi thanked members of the workgroup and industry partners for their input.

First, Delegate Qi discussed SB 693/HB 841 – The Maryland Manufacturing Tax Relief Act of 2022. The bill would align Maryland to the federal depreciation schedule. Doing so, Delegate Qi indicated, would

simplify accounting practices for businesses and allow them to reinvest money back into their businesses given the higher depreciation allowances. Jack Weber stated that the majority of states have decoupled depreciation schedules, and this would give Maryland a competitive advantage. Delegate Qi noted the hearing in the House is currently scheduled for February 23 in the Ways and Means Committee and the hearing in the Senate is scheduled for March 3 in the Finance and Taxation Committee. Delegate Qi said her office would send out information on how to sign up for testimony and she asked members of the workgroup to sign up and indicate support for the legislation. Delegate Qi asked Jack Weber to think of potential pushback or questions that other delegates might have and to provide that information to better prepare effective testimony.

Erin Roth from the Maryland Department of Labor asked if this bill would be heavily amended. Delegate Qi responded that the other bill to be discussed during the meeting would be amended but that this bill likely would not be. Mike Galiazzo asked if the Maryland Department of Commerce would be supporting this legislation. Delegate Qi noted that the administration does not always weigh in on these types of bills. Delegate Qi noted that this is a legislative workgroup staffed by Commerce and that cooperation with Commerce is important. Mike Galiazzo asked Jack Weber if the Maryland Chamber of Commerce was aware of the legislation and if he had coordinated with them. Jack Weber responded that he had not coordinated with them and he did not know if the Chamber of Commerce was aware of the legislation or not. Delegate Qi encouraged members of the workgroup to reach out to contacts – not just industry groups but individual businesses as well. Delegate Qi noted that personal stories make for impactful testimony. Mike Galiazzo indicated he would like to testify to support the legislation.

Delegate Mautz asked representatives from the Maryland Department of Commerce if the legislation would have any impact on existing training/workforce development programs. Heather Gramm from the Maryland Department of Commerce stated that Commerce had not explicitly taken a look at this but she did not believe it would have an impact. Delegate Mautz thanked Ms. Gramm. Delegate Qi said it was important to make sure there are no unintended consequences and that currently the only downside appears to be a loss of revenue to the state. Erin Roth stated she would bring the legislation to the Department of Labor's legislative director to ensure they were aware of the bills. Erin Roth asked if the reason the Maryland and federal schedules were decoupled was just to bring in additional revenue or if there was another reason. Delegate Qi said she believed this to be the case and noted that the fiscal analysis should have a deeper dive on the current statute and the fiscal impact of the proposed legislation to the state.

Jack Weber said he believed the bill should lead to a net impact of money flowing into the state because depreciation currently comes over a long period of time. The proposed legislation would shorten that timeframe and allow the business to reinvest money sooner. Delegate Qi asked if it was correct that the federal government allows depreciation within a year? Jack Weber said that he believed so up to a cap of one million dollars. Mr. Weber noted that in his industry, he may buy a piece of equipment that costs \$1.5 million to \$2 million. Mr. Weber stated that he once spent \$500,000 on a press and it was put in a dumpster five years later; however, the press appreciated over 15 years. Mr. Weber said the industry is changing so fast that manufacturers are afraid to purchase new technology for fear of it being quickly outdated. Mike Galiazzo said this was an important point – that the workgroup is really talking about the rapid changes that are occurring in the industry. Ken Sanchez agreed that this was the most important point about the bill. He noted that the software and technology is moving much faster now so a coupled depreciation schedule is important. Mr. Sanchez asked if line 17, which mentions AGI for an individual, should refer to AGI for a corporation instead. Delegate Qi said she would check. Ken Sanchez also mentioned lines 23 and 24 and said he was not sure what the "item" was that the lines refer to. Mr.

Sanchez asked about the significance of the 2019 date in these lines as well. Delegate Qi said it was a definition and she would check on the significance of that date. Delegate Qi asked Michael Siers if he could check on this as well.

Discussion turned to HB 1384 (no Senate crossfile as the senators who wished to be involved have maxed out their legislation). Delegate Qi noted that this bill would create a fund and program to support the adoption of Industry 4.0 in the state. Delegate Qi thanked members of the workgroup who offered help with language and thanked Richard Clinch from the University of Baltimore for his work on best practices across the country. Delegate Qi noted this bill would likely be amended but described the bill as it currently stands. The Maryland Department of Commerce will create an expert review panel/committee and administer the program. Grants made under the program would be 1:1 matches and the current legislation does not make a mention of grant sizes. Heather Gramm noted that Commerce has their own version of this bill that was put forth by the Governor in his budget. Delegate Qi said she was surprised by this but that Ms. Gramm indicated the Department was not allowed to release budget language until the Governor released his budget. Delegate Qi noted that the bill would expand the pilot program to three years. Delegate Mautz asked if there was an existing criteria for how the money would be allocated regionally. Delegate Qi said these decisions could be passed on the Commerce's expert review panel (created in the legislation) that would draft administrative regulations. Todd Sabin noted that Commerce does have flexibility in this regard. Delegate Qi noted that because of this the bill language need not be overly prescriptive. Delegate Mautz indicated this was helpful.

Mike Galiazzo stated that what currently is not in the bill but that he supports is a 15 percent loan guarantee for minority owned businesses. Susy Ganz stated this was not necessarily due to loans themselves but the fact that guarantees may be harder for minority-owned businesses to obtain. April Richardson said she believed it made sense to cover everyone and that she was happy for additional support to minority businesses. Ms. Richardson said she has been talking to smaller minority manufacturers to understand their needs and how those needs differ from minority-owned firms in general. Ms. Richardson said she plans to submit these findings to the group, hopefully by the next meeting.

Ken Sanchez noted that the definitions of SME or MBE can sometimes be too narrow and exclude some workers based on income or asset restrictions, for example. Heather Gramm responded that there may be ways to tie the definitions in to broader definitions and offered up the Department of Commerce's VLT program as an example. Mr. Sanchez agreed. April Richardson said that during the early days of the pandemic, there were a number of grants targeted towards minority-owned businesses and there was a correction away from requiring an MBE certification to asking businesses to self-certify. Ms. Richardson said that requiring self-certification can open the doors to recapture penalties as well and that funds can be clawed back from companies if an audit determines they are not minority-owned. Delegate Qi said she would prefer to leave it to the Department of Commerce to define the parameters of the program.

Ken Sanchez asked to clarify the \$25,000 award figure. Delegate Qi indicated that figure is meant to be a floor and not a ceiling. Delegate Qi asked Richard Clinch from the University of Baltimore what normal ranges are in other states. Mr. Clinch responded that the normal range is anywhere from \$25,000 to \$250,000. Delegate Qi noted that if the ceiling is set at \$250,000 a \$2 million fund would be exhausted quickly. Mr. Clinch stated that state funding ranges from a low of \$2 million to a high of \$9 million. Delegate Qi indicated that it was good to know the proposed legislation is a very modest ask based on best practices. Ken Sanchez said it was important to note how expensive the technology currently used is and that \$25,000 to \$50,000 will be a very small portion of the total costs. Delegate Qi said that if

funding levels were higher there would be more qualifications to make sure there aren't issues. Richard Clinch said that states with smaller funding levels have had great takeup and that all programs are oversubscribed, even those with larger dollar amount thresholds. Delegate Qi asked if Richard Clinch could testify during the hearings. Mike Galiazzo asked if hearings were virtual or in-person. Delegate Qi noted that the House side is virtual but that the Senate was switching to in-person hearings.

USM Resources for Manufacturers

Lindsay Ryan, Venture Development Director at the University System of Maryland's Office of Economic Development, presented on resources that USM has for Maryland manufacturers. Ms. Ryan noted that her focus was on research and innovation rather than workforce-specific issues. Ms. Ryan noted that each year over 100 startups or small businesses engage with USM and she provided examples of successful manufacturing-related startups including HighT-Tech, Liatris, and SonoAsh. Ms. Ryan stressed that her office is there to help manufacturers and other small businesses connect and navigate all that USM has to offer. Ms. Ryan provided examples such as USM's various centers (including centers of excellence, institutes, and labs) that are very focused on solving problems. Another group are intermediaries, such as workgroup member Fraunhofer USA Center for Experimental Software Engineering. While Fraunhofer is external, some intermediaries such as BEACON at Salisbury University are internal to USM. Finally, Ms. Ryan touched on the Maryland Industrial Partnerships Program (MIPS). Ms. Ryan stressed that MIPS is a good way for companies to leverage the university system's resources. MIPS subsidizes research costs (as much as 90%) and the remaining percentage helps ensure partner companies have skin in the game. Richard Clinch noted that he conducts the economic impact studies for MIPS and the program has a fantastic impact on the state's economy and on businesses. Lindsay Ryan noted that MIPS is very flexible depending on where a business is in their life cycle and what specific inputs they need. Ken Sanchez asked if there was anything that allows using university labs to do product testing. Lindsay Ryan indicated that there was and that some programs have an associated fee structure. Ken Sanchez mentioned that he had had difficulties engaging with universities in the past. He noted that to use lab equipment at a university would have involved a substantial fee that the company could not afford. However, the equipment was not being utilized, so in the end the company could not leverage the resources and the lab remained unused. Irnande Altema asked to connect with Ken Sanchez to learn more about the story.

Bob Mather agreed with Ken and said that making it easier to work with universities is important. Mr. Mather noted that his company, Stanley Black and Decker, works with a lot of universities across the country and that he would love the opportunity to work closely with Hopkins or UMD College Park, for example.

Update on Research by Jacob France

Richard Clinch noted that his ongoing research support was in a pause at the moment. Mr. Clinch noted that he had reached out to Labor and Commerce regarding existing state resources for manufacturing and that he plans on working on workforce issues later in the year. Mr. Clinch said he was there to be responsive to the needs of the workgroup. Delegate Qi said the work done so far has been great and that an additional call can be done to determine next steps. Delegate Qi asked if what Mr. Clinch has already done could be shared. Michael Siers shared the link to the workgroup's interim report.

Approval of the Minutes:

The meeting minutes were approved unanimously. Jack Weber made the initial motion and was seconded by Erin Roth.

Discuss Upcoming Meetings

Delegate Qi noted that the next meeting is currently scheduled for March 14 at 10 AM. Delegate Qi noted that meetings had been changed from Tuesdays to Mondays to accommodate schedules during the legislative session. Delegate Qi asked that if members have preferences between Mondays or Tuesdays to please provide that input.

Bob Mather asked to suggest a date for a virtual tour of the Stanley Black and Decker facility in Connecticut and proposed 10 AM on February 28. This date conflicted with a Maryland Department of Commerce presentation so March 7 at 10 AM was proposed as an alternative.

Closing Remarks:

Delegate Qi thanked members for attending the meeting. The meeting adjourned at 11:25 AM.