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Investors fear bill to restrict TEDCO funding might hurt Md. startups

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Mike Janke and Bob Ackerman are the co-founders of DataTribe. Ackerman also heads the VC firm Allegis Cyber.

A pair of local investors are concerned a proposed bill that seeks to restrict how Maryland taxpayer dollars can be used to fund companies might hinder future tech investments and startup growth in the state.

A bill proposed by State Sen. Cheryl Kagan (SB340) is aimed at state-backed investment organization Maryland Technology Development Corp., or TEDCO. It was filed following the recent release of a state audit report that revealed tech companies TEDCO has invested in through one of its funds are largely located outside of Maryland, or had moved out of Maryland after securing funding.

The audit raised concern among several state lawmakers, including Kagan. They felt that in funding companies that did not maintain most of their employees inside the state, TEDCO was not upholding its mission to "discover, invest in, and help build great Maryland-based technology companies." Kagan's bill chiefly seeks to impose a new rule for TEDCO investments, ensuring that any company it supports with state funds must have more than half of its workforce living or working in Maryland.

Longtime venture investor Bob Ackerman said he understands the intention behind Kagan's bill, but feels the state must show greater awareness for how tech ecosystems operate and grow if it hopes to ever catch up to a place like Silicon Valley.

Ackerman is a prominent cybersecurity venture capitalist that has spent many years working in and around Silicon Valley through his firm Allegis Cyber. Ackerman has been working alongside Mike Janke, head of Fulton-based cyber incubator DataTribe, to bolster resources around Maryland cyber startups in particular for the past three years.

He said Maryland has made notable progress in building up its tech ecosystem over the past few years. In fact, Maryland tech companies saw their strongest funding year yet in 2018, raking in more than $1 billion in venture capital mostly from entities based outside the state and even outside the country. Ackerman worries SB340 could put the ecosystem at risk of losing momentum.

"All [this bill] does is make it even more difficult for people to build companies here, more difficult for capital to be built and deployed here," Ackerman said. "I totally understand wanting to make sure taxpayer dollars are being used to benefit the state, but in order to grow the ecosystem, you have to make it easier to grow businesses here. If startups they can’t find the resources they need in Maryland, they’ll leave."

Ackerman said TEDCO is a valuable ally to companies like Allegis and DataTribe in the ecosystem-building process. Indeed, TEDCO's are among the first funds many Maryland-born startups are able to secure for early growth. He and Janke worry that imposing stricter rules around how TEDCO invests will drive more startups out of Maryland as they seek growth capital. It could also deter larger, outside VC firms from wanting to invest in companies in which TEDCO already has a stake, they said.

Janke believes Kagan's bill represents a misunderstanding of how VCs and startups do business. For example, he feels the bill's expectation that over half of TEDCO portfolio firms' employees be based inside the state is unreasonable given how tech companies operate today. It is common for tech firms to maintain a small office in one location, but employ people wherever they can find the talent they need.