HB 241

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 241 (Delegates Harrison and Rawlings)
Economic Matters

MSBDFA - Equity Participation Investment Program

This bill alters the restrictions attached to the equity participation financing program of the Maryland Small Business Development Financing Authority (MSBDFA). It increases from $100,000 to $500,000 the amount of equity participation financing allowed for a franchise and removes the $3 million annual cap on total equity participation financing. An applicant for financing under this program would not have to pledge $75,000 in security as is currently required. The bill requires that applicants meet specified moral, demographic, and geographic conditions.

Fiscal Summary

State Effect: Potential indeterminate increase in State expenditures; potential indeterminate effect on State revenues.

Local Effect: None.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

State Effect: Removing the $3 million annual cap on total equity participation financing should not have an immediate impact on State finances. According to DBED, $500,000 in financing was provided in fiscal 1994, $50,000 in fiscal 1995, no funding in fiscal 1996, and $250,000 in financing has been approved to date in fiscal 1997. The fiscal 1998 budget allowance for the program totals $575,000. Any potential fiscal impact would be in the long-term.

Increasing from $100,000 to $500,000 the amount of equity participation financing allowed for a franchise could increase the amount of funding provided under this program. According to DBED, the appropriation for the equity participation financing program as a whole equaled $750,000 in fiscal 1996; none of these funds were encumbered or spent. Of the $575,000 appropriation for fiscal 1997, $250,000 has been encumbered. Therefore, it is assumed that additional funds will be available if increased applications are made.

Eliminating the requirement that applicants have $75,000 in net worth pledged as security could increase the number of individuals and groups that qualify for equity participation financing for the acquisition of a business. This could increase State expenditures on these activities, as well as State revenues from the equity participation. It is possible that easing this requirement for owner's equity could also raise the risk of the projects undertaken.

Small Business Effect: According to DBED, the standards to be met by applicants for financing under this bill are already imposed; therefore, this provision should not impact small businesses. In addition, lifting the cap on equity participation financing should have no impact as discussed above.

Eliminating the requirement that applicants have $75,000 in net worth pledged as security could increase the number of individuals and groups that qualify for equity participation financing for the acquisition of a business. Likewise, increasing the amount of equity participation financing allowed for a franchise from $100,000 to $500,000 could increase the amount of funds disbursed to applicants. It cannot be estimated at this time how many enterprises would benefit from these provisions.

Information Source(s): Department of Business and Economic Development, Department of Fiscal Services

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