Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 989 (Delegate Harrison, *et al.*)
Economic Matters Finance

Maryland Small Business Development Financing Authority - Financing Limitations

This bill raises the limits of assistance that can be offered by the Maryland Small Business Development Financing Authority (MSBDFA) under various programs. It also authorizes MSBDFA to issue or guarantee bid, performance, or payment bonds on contracts financed by a private entity, and modifies requirements that an enterprise applying for assistance from the Equity Participation Investment Program (EPIP) have certain assets. The bill also requires MSBDFA to include in its next two annual reports an evaluation of the bill's impact on MSBDFA's assistance to eligible businesses.

Fiscal Summary

State Effect: None. The bill primarily alters the purpose for which existing funds may be used. The Department of Business and Economic Development (DBED) could handle any additional administrative costs and reporting requirements with existing resources.

Local Effect: None.

Small Business Effect: Potential meaningful. Eligible small businesses may benefit from increased access to financial assistance and the raising of caps on the amount of financial assistance; however as there is no increased funding for MSBDFA associated with this bill, this may result in smaller assistance grants.

Analysis

Bill Summary: MSBDFA may use the Contract Financing Fund to make a loan to an eligible applicant if the loan does not exceed $2.0 million, increased from the current $1.0 million cap. In addition, MSBDFA may guarantee a loan if the maximum amount payable by MSDBFA under its guarantee does not exceed $2 million.

MSBDFA may also use the Long-Term Guaranty Fund to guarantee up to 80% of the principal and interest on a long-term loan made by a financial institution if the maximum amount of the guarantee does not exceed $2.0 million, increased from $1.0 million.

The bill also expands the type of contracts for which MSBDFA may issue or guarantee a bid, payment, or performance bond through the Surety Bond program. Such bonds and guarantees on bonds may now also be offered on contracts financed by a private entity. In addition, until September 30, 2009, MSBDFA may guarantee a surety bond up to the lessor of 90% or $5.0 million of its losses incurred under a bid, payment, or performance bond, increased from the current cap of $1.35 million.

Through EPIP MSBDFA may not invest more than:

- $2.0 million or 49% of the total initial investment for any franchise (increased from the existing $1.0 million/45% cap);
- $2.0 million or 49% of the total investment for any enterprise acquiring an existing business (increased from $1.0 million/25%); or
- $2.0 million for a technology-based business or other business.

In addition, MSBDFA may not own more than:

- 49% of the voting stock of, or 49% interest in, any franchise, technology-based business, or other business (increased from 45%); or
- 49% of the voting stock of, or 49% interest in, any enterprise acquiring an existing business (increased from 25%)

An enterprise that seeks to acquire an existing business or its principals must have an equity investment equal to at least 5% of the total cost of the acquisition. The bill also clarifies that types of businesses other than a franchise, a technology-based business, or an enterprise acquiring an existing business seeking financing from EPIP must provide certain information when applying for assistance.

Current Law: MSDBFA may guarantee a loan for working capital and equipment for an eligible firm with funds from the Contract Financing Fund; it also may provide a direct loan for working capital and equipment. These guarantees or loans may be offered only to fulfill contracts on projects financed by federal, State, or local government, or by a regulated utility. The amount of the loan or guarantee cannot exceed $1.0 million.

MSBDFA may also assist eligible small businesses in obtaining bid, performance, or payment bonds to fulfill contracts funded primarily by government agencies or public utilities. MSBDFA may either guarantee a bond to a maximum of 90% of the value of the bond or $1.35 million, or may issue bonds directly. From October 1, 2006 to September 30, 2009, the maximum value of a directly issued bond is $5.0 million; after that date, the maximum value is $1.0 million.

EPIP is to encourage and assist the start-up, development, and retention of Maryland-based franchises, technology businesses, or other businesses, and in the acquisition of existing businesses, owned and operated by socially or economically disadvantaged persons. MSBDFA requires the initial investment of up to $1.0 million in technology-based businesses, franchises, and other businesses to be recovered within seven years. MSBDFA also requires the initial investment of up to $1.0 million in technology-based businesses to be repaid within 10 years.

Background: MSBDFA was established to provide financing incentives to create and expand small businesses, focusing on businesses owned by socially or economically disadvantaged persons. Since 1994, funds under MSBDFA have been managed privately by Meridian Management Group (MMG). As of June 30, 2006, MSBDFA had fund balances of approximately $2.2 million.

From 1995 to 2004, MSBDFA is estimated to have created 3,224 direct jobs and 2,044 indirect jobs. It is estimated to have generated $121.4 million in State tax receipts.

In fiscal 2006, MSBDFA was estimated to have created 171 jobs through financing and to assist in retaining 283 jobs. It is projected to help create 250 jobs and help retain 300 jobs each year in fiscal 2007 and 2008.

In fiscal 2006, MSBDFA had total income of $9.7 million. It had $9.2 million in new loan encumbrances expenditures, and approximately $1.7 million in operating expenses, management fees, and indirect administrative expenses.

In fiscal 2007, MSBDFA is projected to have revenues of $19.3 million and expenditures of $18.5 million, including $16.6 million in new loan encumbrances. In fiscal 2008, MSBDFA is projected to have revenues of $19.2 million and expenditures of $18.6 million, including $16.6 million in new loans.

According to DBED, MSBDFA received 66 applications for assistance in fiscal 2006. Over the past two years, MSBDFA has received 15 applications that wanted higher financing or benefits than currently available.

State Fiscal Effect: The bill primarily alters the purposes for which program funding may be used. This could alter the number of clients MSBDFA assists and the size of the financial assistance offered to each client, assuming the total funding for MSBDFA remains level.

DBED estimates that additional State funds will be needed in the future to meet the anticipated demand for higher amounts of assistance under the bill. However, DLS advises that the bill does not require additional funding for MSBDFA.

DBED advises that the proposed changes are likely to result in increased program volume for MSBDFA. For example, the changes reduce the amount of capital an eligible business would be required to contribute to a venture to be eligible for assistance, opening up MSBDFA assistance to a wider pool of applicants. However, DBED advises that it does not anticipate any need for additional staffing to handle any increased demand for MSBDFA assistance.

Conversely, MSBDFA's client load could potentially decrease, instead of increase, if MSBDFA chose to invest larger amounts in certain projects, reducing funds available for other clients.

Changes to the criteria under EPIP and the Surety Bond program could increase MSBDFA's risk exposure. This could in turn decrease the amount of funds available in the future to invest in small and minority businesses.

Small Business Effect: Expanding eligibility for the program could result in more projects being funded, but a reduced loan amount for each project. MSBDFA assistance is made on a "first come, first serve" basis; an increase in the number of applicants for funds could result in disqualification based on the timing of the application for projects that would have previously been funded.

Additional Information

Prior Introductions: None.

Cross File: SB 318 (Senator Exum, *et al.*) – Finance.

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

Fiscal Note History: First Reader - March 4, 2007
mll/rhh Revised - Enrolled Bill - May 9, 2007

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