HB 909

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

House Bill 909 (Delegate Pena-Melnyk, *et al.*)
Economic Matters Finance

Pilot Program for Small Business Development by Ex-Offenders

This bill requires the Department of Labor, Licensing, and Regulation (DLLR), in consultation with the Department of Public Safety and Correctional Services (DPSCS) and the Maryland Small Business Development Financing Authority (MSBDFA), to establish a pilot program for small business development by ex-offenders, subject to the availability of funds. The program is to assist individuals exiting the correctional system by providing training in how to establish small businesses and funding to establish small businesses. DLLR must report to the General Assembly by December 31, 2020, on the effectiveness of the pilot program.

The bill takes effect July 1, 2015, and terminates December 31, 2020.

Fiscal Summary

State Effect: DLLR general fund expenditures increase by up to $96,700 in FY 2016 for contractual staff to implement the pilot program and to provide funding to program participants. Future year expenditures reflect annualization and inflation. Revenues are not affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	$0	$0	$0	$0	$0
GF Expenditure	96,700	83,100	86,700	90,400	94,400
Net Effect	($96,700)	($83,100)	($86,700)	($90,400)	($94,400)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal overall, but potential meaningful for small businesses that are established through the program by ex-offenders.

Analysis

Bill Summary: DLLR must develop an evaluation process that includes a mechanism to evaluate whether the program encourages the establishment of stable small businesses by program participants. DLLR, in consultation with DPSCS, must select between three and five individuals to participate in the program who have recently exited the correctional system and have an interest or skill set that indicates a likelihood of success in implementing a business plan. Program participants must receive training and mentoring in the development of a business plan. DLLR must assist the program participants in obtaining financing through MSBDFA and provide each participant with a mentor who will guide that participant over a three-year period following the implementation of the participant's business plan. DLLR may coordinate with other entities that offer to provide resources for the program, including funding, training, and mentoring services.

Current Law/Background: Chapters 240 and 241 of 2013 required the Department of Business and Economic Development (DBED), DLLR, and DPSCS to jointly study and evaluate the feasibility of establishing a business development program that provides business training to ex-offenders. The study highlights educational programs offered to incarcerated offenders, resources available to job-seekers with criminal backgrounds, and services offered to individuals seeking to start a business in the State.

The purposes of MSBDFA are to (1) promote the viability and expansion of businesses owned by economically or socially disadvantaged entrepreneurs and (2) provide assistance to small businesses that are unable to obtain adequate business financing on reasonable terms through normal financing channels. In 2011, DBED provided $150,000 in lines of credit to two small businesses owned by ex-offenders, and in 2013, DBED provided $400,000 of equity participation financing to a small business owned by an ex-offender.

In fiscal 2014, the average daily population within DPSCS correctional facilities was 21,000 inmates. In fiscal 2012, 10,300 were released back into the community. Statistics show that, for those released in fiscal 2010, 38% of the offenders returned with a new conviction (prison sentence or parole/probation) within three years of their release from prison. This was lower than the 43.3% three-year recidivism rate in fiscal 2008. Some local jurisdictions, including Baltimore City and Montgomery County, operate programs designed to assist with ex-offender reentry.

The federal Second Chance Act of 2007 is designed to improve outcomes for people returning to the community from prisons and jails, nationwide. The Act authorizes federal grants to government agencies and community and faith-based organizations to provide employment assistance, substance abuse treatment, housing, family programming, mentoring, victim support, and other services that can help reduce reoffending and violations of probation and parole.

The Maryland Small Business Development Center (SBDC) Network is a collection of 20 one-stop-shops located around the State. SBDCs provide advice, counseling, and support to entrepreneurs and small businesses. The network is a partnership between the U.S. Small Business Administration and the State – administered by the University of Maryland, College Park – which links private, government, higher education, and local economic development organizations to provide various training and technical services to the State's small businesses.

State Expenditures: DPSCS reports that it can use existing resources to run a data match in DPSCS's inmate database for individuals who have recently been released from incarceration against DLLR's database of offenders who have completed specified training.

The program is subject to the availability of funds, but to fully fund the program, DLLR's general fund expenditures increase by $96,744 in fiscal 2016, which assumes an October 1, 2015 start date, following a 90-day start-up delay. This estimate reflects the cost of hiring two contractual positions to oversee the pilot program, coordinate with other State agencies, establish an evaluation process, and train and mentor the program participants. Existing staff within the Division of Workforce Development and Adult Learning at DLLR are mostly funded through federal funds, so implementing the pilot program with existing employees would put DLLR out of compliance with federal funding restrictions. To the extent that other entities provide training and mentoring services, DLLR may only need to hire one contractual position to oversee the program, thereby reducing expenditures.

Additionally, DLLR must provide funding to establish small businesses under the pilot program. The average start-up cost for a business is approximately $30,000. Assuming State grants provide 15% of the start-up costs in funding to participants, DLLR estimates providing $4,500 to each of five participants on a one-time basis for a total of $22,500. To the extent that MSBDFA or another entity provides the funding or there are fewer participants, the funding expenditures could decrease.

The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Positions	2
Salaries and Fringe Benefits	$64,796
One-time Grants to Participants	22,500
Operating Expenses	9,448
Total FY 2016 State Expenditures	**$96,744**

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses and the elimination of funding to participants. The program terminates in fiscal 2021.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Additional Information

Prior Introductions: None.

Cross File: SB 582 (Senator Pugh, *et al.*) - Finance.

Information Source(s): Department of Business and Economic Development; Department of Labor, Licensing, and Regulation; Department of Public Safety and Correctional Services; U.S. Small Business Administration; Department of Legislative Services

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