

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 579

(Senator Pugh)

Finance

Economic Matters

Maryland Small Business Development Financing Authority - Small Business
Surety Bond Program

This bill increases the maximum amount for which the Maryland Small Business Development Financing Authority (MSBDFA) may guarantee a surety from \$1.35 million to \$2.25 million under the Small Business Surety Bond Program (SBP). The maximum amount for which MSBDFA may issue a bid bond, performance bond, or payment bond as a surety is also increased from \$1.0 million to \$2.5 million per bond.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: Altering the amount for which MSBDFA may guarantee a surety or execute specified bonds does not directly affect special fund revenues or expenditures.

Local Effect: None.

Small Business Effect: Meaningful for businesses who receive enhanced financing assistance under the bill.

Analysis

Current Law: Under SBP, MSBDFA directly issues bid, performance, or payment bonds or guarantees a surety's losses incurred as a result of the contractor's breach of a bid, performance, or payment bond.

Subject to specified conditions, MSBDFDA may guarantee a surety up to the lesser of 90% or \$1.35 million of its loss under a bid bond, payment bond, or performance bond on a contract financed by the federal government, a state government, a local government, a private entity, or a utility that the Public Service Commission (PSC) regulates.

Subject to specified conditions, MSBDFDA may execute and perform a bid bond, performance bond, and payment bond as a surety for the benefit of a principal in connection with a contract financed by the federal government or a state government, a local government, a private entity, or a utility regulated by PSC. If the sources of funding for the bonds are not grants, the bonds may be up to \$1.0 million each.

Background: Chapter 306 of 2008, effective October 1, 2014, altered the amounts for which MSBDFDA may guarantee a surety or issue a bid, performance, or payment bond from \$5.0 million each to \$1.35 million and \$1.0 million, respectively.

SBP is one of several programs administered by MSBDFDA in the Department of Businesses and Economic Development. The program assists eligible small businesses in obtaining bid, performance, or payment bonds necessary to perform on contracts where the majority of funds are provided by a government agency, public utility company, or private entity. SBP is funded through the Surety Bond Fund, a special, nonlapsing fund.

Since inception of the program in 1984, 109 projects totaling \$59.3 million have received assistance under the program with bonds issued directly or guaranteed by MSBDFDA. During this time period, nine claims totaling \$2.4 million have been paid as a result of defaults by companies using the program, with four of these claims, equal to approximately \$2.0 million, attributable to the default of one company. During fiscal 2014, one application was approved for \$1.0 million.

Additional Information

Prior Introductions: None.

Cross File: Although not designated as a cross file, HB 844 (Delegate Branch, *et al.* – Economic Matters) is identical.

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

Fiscal Note History: First Reader - March 1, 2015
md/rhh

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