SB 788

Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 788 (Senator Hester, *et al.*)

Finance and Budget and Taxation

Economic Development – Small Business Financing – Loan Loss Reserve (Maryland Capital Access Program)

This bill establishes the Capital Access Program in the Department of Commerce (Commerce). The purpose of the program is to stimulate opportunities for small businesses that may have difficulty in obtaining business financing to have access to credit by establishing a loan loss reserve program. The Governor must appropriate $10.0 million to the program in fiscal 2023. The bill also specifies the intent of the General Assembly that $50.0 million of financial assistance provided by the federal government to the State in response to the COVID-19 pandemic on or after January 1, 2021, be distributed to capitalize the State guarantee under the program, if the purposes of the program are a permissible use of the financial assistance.

Fiscal Summary

State Effect: No effect in FY 2022. General fund expenditures increase by at least $10.1 million in FY 2023 and by at least $0.1 million annually thereafter to initially capitalize the program and pay for staff and related expenses. To the extent that federal funds are available and are appropriated for the program, the impact on general fund expenditures is mitigated; however, those federal funds are diverted from other purposes. This estimate assumes that programmatic activity is otherwise nonbudgeted (and not shown below). **This bill establishes a mandated appropriation for FY 2023.**

($ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	10.1	0.1	0.1	0.1
Net Effect	$0.0	($10.1)	($0.1)	($0.1)	($0.1)

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

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Subject to specified eligibility and loan structure requirements, Commerce must establish a loan loss reserve account for a lender when a lender enrolls its first loan under the program. Eligible borrowers must have fewer than 50 employees and qualify as a small business under U.S. Small Business Administration size standards. Loans may not be for longer than 10 years and may not exceed $250,000. Eligible lenders are credit unions, financial institutions, and community development financial institutions, as those terms are defined in current law. At the time of enrollment:

- the borrower must make a payment to the account of at least 2% and up to 7% of the enrolled loan amount;
- the lender must make a payment to the account of at least 2% of the enrolled amount; and
- Commerce must make a matching payment to the account in an amount equal to the borrower and lender's aggregate payment (minimum of 4% of the enrolled amount).

The loan loss reserve account of a lender must be available for the lender to withdraw if a borrower defaults on a qualifying loan, subject to procedures that must be adopted by Commerce.

Current Law: A capital access program as established in the bill does not exist in Commerce, although a similar type of incentive is offered through the Maryland Small Business Development Financing Authority's (MSBDFA) Long-term Guaranty Program, which provides guarantees for loans made by a financial institution (up to $2.0 million). MSBDFA in general provides financing options for small businesses that are not able to qualify for financing from private lending institutions or are owned by socially and economically disadvantaged persons. A number of other State programs are also designed to assist small businesses.

State Fiscal Effect: Commerce advises that, at a minimum, a program manager is required to administer the program, with support from other departmental legal, marketing, business development, and accounting staff, and that the department's existing staff are currently fully subscribed. Based on the timing of the required $10.0 million funding mandate, this estimate assumes program implementation begins in fiscal 2023, with general funds. The program may be implemented in fiscal 2022 to the extent that other discretionary funds are provided in that year – federal or otherwise.

Accordingly, general fund expenditures increase by at least $10,115,829 in fiscal 2023, consistent with the timing of the funding mandate. This estimate reflects the cost of hiring one program manager to oversee the general administration of the program, in conjunction with general support from existing Commerce staff. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	$110,084
Mandated Capitalization	10,000,000
Operating Expenses	5,745
Total FY 2023 State Expenditures	**$10,115,829**

Future year expenditures reflect annual increases, employee turnover, ongoing operating expenses, and the termination of the one-time program capitalization in fiscal 2023.

Expenditures further increase to the extent that Commerce legal, marketing, business development, and accounting staff are unable to provide necessary support to the program, due to other responsibilities at the time; such costs could easily exceed $50,000 annually, depending on the scope of the program going forward.

This estimate assumes that programmatic activity – depositing the State match, making payments on defaulting loans, *etc.* – is nonbudgeted and begins in fiscal 2023. Assuming the minimum State match of 4%, $10.0 million matches payments on $250.0 million of enrolled loans. If the State match percentage increases due to borrowers and lenders making larger payments into the loan loss reserve account, the program can match a lesser total amount of loans.

Small Business Effect: Small businesses benefit from a potential source of financing to the extent that lenders opt to participate and the program facilitates lending that would not have occurred otherwise. As designed, small businesses must provide upfront deposits of at least 2% of the loan amount. The Department of Housing and Community Development used to offer a similar program to the one established by the bill but stopped due to a lack of interest by lenders.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 829 (Delegate Lierman) - Economic Matters.

Information Source(s): Department of Commerce; Department of Budget and Management; Department of Housing and Community Development; Department of Legislative Services

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