



Wes Moore | Governor
Aruna Miller | Lt. Governor
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DATE: January 17, 2024
BILL NO: House Bill 26
BILL TITLE: Small, Minority, and Women-Owned Businesses Account – Alterations
COMMITTEE: Ways and Means
POSITION: Support

The Maryland Department of Commerce (Commerce) supports House Bill 26 - Small, Minority, and Women-Owned Businesses Account - Alterations.

Bill Summary:

House Bill 26 alters the eligible uses of the Small, Minority, and Women-Owned Businesses Account (SMWOBA) in two ways: it removes investment capital as an eligible use of the funds, and it authorizes the option of awarding a grant of up to \$10,000 when the Fund Managers issue a loan through the program.

Background:

Article XIX of the Maryland Constitution authorizes video lottery terminals (VLTs) to fund education. This provision was enacted pursuant to Chapter 5, Acts of the 2007 Special Session, and ratified by Maryland voters in the November 2008 General Election. As a result, Chapter 4, Acts of the 2007 Special Session also became effective and established the Small, Minority, and Women-Owned Businesses Account (the Account) under the Authority of the Board of Public Works (BPW).

State Government Article §9-1A-27 requires that 1.5 percent of the proceeds from VLTs at each video lottery facility be paid into the Account. State Government Article §9-1A-35 requires BPW to make grants to eligible fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State, of which at least 50 percent must be allocated to such businesses in the jurisdictions and communities surrounding a video lottery facility. BPW initially designated Commerce to manage the Account on their behalf through a Memorandum of Understanding dated August 22, 2012, until Chapter 453, Acts of 2017, officially transferred authority over the program from BPW to Commerce.

Chapter 116, Acts of 2021 authorized the Fund Managers to provide grants or loans converted to a grant not to exceed \$50,000 for a single business during a Federal Declaration of Emergency or an Official Declaration of Emergency by the Governor. The Fund Managers deployed \$10 million in Relief funding during the pandemic.

The Department currently has nine Fund Managers across the State and continues to seek proposals for additional Fund Managers to assist with deployment. As of July 1, 2023, the Fund has settled 1,067 transactions totaling \$108.9 million since inception, helping to create and retain 11,707 jobs. In FY 2023 just under \$19 million in loans were closed, supporting 1,570 jobs.

Rationale:

As demonstrated through the utilization data provided above, Commerce considers SMWOBA to be one of the Department's most successful programs and likely the most useful program for small business assistance. Despite that success, the Department knows more can always be done to assist small businesses. Additionally, the program has a fund balance and repayments come back into the program, so Commerce wants to ensure these funds can be deployed at even higher rates to the businesses who need them. To that end, Commerce, in consultation with the Fund Managers, believes that pairing a \$10,000 grant with a loan would help increase demand and activity in the SMWOBA program by offering small businesses more flexible funding opportunities to assist them with their capital needs. Increasing access to capital to the areas surrounding video lottery terminal facilities and underserved small, minority and women-owned businesses is an important element of the SMWOBA program. Adding a grant component to the program will make it more attractive to potential borrowers and help with deploying SMWOBA funds. Fund Managers would not be required to offer grants, but this alteration would give them the authority to offer them in situations where they believe the business could use additional assistance. Commerce often receives requests from businesses for grant funding and can only offer grants in specific circumstances – altering SMWOBA to include a grant capacity should result in increased demand for the program and assist in deploying these funds to the businesses intended to benefit from them.

Removing investment capital as an eligible use of funds is conforming the statute to existing practice. When the program was implemented it was determined that due to federal securities laws and rules related to what types of entities are deemed to be “accredited investors”, SMWOBA could not be used for capital investments despite it being allowed in statute.

The SMWOBA program has provided much needed assistance to Maryland's small, minority and women-owned businesses since it was created, and has supported thousands of jobs in the process. Commerce and the SMWOBA fund managers take pride in the program's ability to set flexible terms in order to better serve the needs of those businesses. House Bill 26 will improve the program further with the addition of grants as an eligible use of the funds – giving businesses even more financial assistance when they need it most.

Commerce respectfully requests a favorable report on House Bill 26.