

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 794 (Senator McFadden)
Finance

Department of Business and Economic Development - Youth Business Enterprise Empowerment Act

This bill establishes a Youth Business Enterprise Empowerment Program and Fund in the Department of Business and Economic Development (DBED) to provide grants, loans, and other financial incentives to foster the development of youth business enterprise in the State.

Fiscal Summary

State Effect: Indeterminate increase in general and special fund expenditures; indeterminate increase in special fund revenues. Potential increase in revenues and expenditures due to the bill's penalty provision.

Local Effect: Potential increase in revenues and expenditures due to the bill's penalty provision.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Bill Summary: Youth business enterprises are entities engaged in commercial transactions and at least 51% owned or controlled by one or more individuals 30 years of age or under. DBED must develop regulations to certify and decertify these businesses.

DBED must maintain and disseminate a list of certified youth business enterprises, and compile a database concerning the extent of participation of eligible businesses in the program. DBED must develop financial, tax, and other incentives for certified businesses. The bill also creates a 19-member Youth Business Enterprise Advisory Council. DBED must submit a report on the program by January 1 of each year.

Anyone who fraudulently attempts to gain certification or funds through this program is

guilty of a felony and subject to a fine of \$20,000 and/or imprisonment of up to five years. Anyone who makes a false statement regarding whether an entity has certification is guilty of a misdemeanor and subject to a fine of \$2,500 and/or imprisonment of up to one year.

State Effect: DBED anticipates that 52 loans and grants will be provided each year, with half of the transactions as loans and half as grants. The average loan or grant amount would be approximately \$10,000, for a total of \$520,000 per year. Given this workload, DBED advises that it would need four full-time staff, two Administrators, one Administrative Aide, and one Staff Attorney. In addition, \$30,000 would be needed the first year for contractual expenses to set up the required database, \$20,000 annually would be needed for printing costs, \$7,000 annually for communications, and \$12,500 annually for transportation. Total expenditures for administrative costs and loan and grant disbursements would be \$672,500 for fiscal 1998.

DBED advises that there are currently between 60 and 75 known commercial entities operated by students in Maryland's public high schools under the age of 19. However, there is no information on the total number of businesses that might be eligible and choose to participate in the program. Administrative needs would vary widely, depending upon this level of participation. However, given the estimation provided by DBED, the Department of Fiscal Services advises that administrative needs could be handled with three employees rather than four.

General fund expenditures could increase by an estimated \$528,900 in fiscal 1998, which reflects the bill's October 1, 1997 effective date. This estimate reflects the cost of hiring one Administrator, one Staff Attorney, and one Office Secretary. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- \$520,000 will be provided as grants and loans each year;
- decertification procedures will necessitate a full-time Staff Attorney; and
- \$30,000 will be needed to implement the required database.

Salaries and Fringe Benefits	\$79,900
Grants and loans	390,000
One-Time Database Setup	30,000
Other Operating Expenses	<u>29,000</u>
Total FY 1998 State Expenditures	\$528,900

Future year expenditures below reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

FY 1999	\$663,300
FY 2000	\$678,300
FY 2001	\$693,700
FY 2002	\$709,500

Should decertification procedures not involve as much legal work as anticipated, projected expenditures could decrease. A Staff Attorney would then only be needed contractually during the first year to develop appropriate policies and procedures; legal needs during the out-years could then be handled with existing staff.

Special fund revenues will increase in the out-years, depending upon the percentage of funds provided as loans and the interest rates and terms applied. Any such loan repayment would decrease the need for general fund appropriations in the future. Other revenues could potentially be affected, should any kind of tax incentives be devised and implemented as mentioned in the bill.

Small Business Effect: Small businesses that qualify as youth business enterprises could benefit under the bill's financial incentive provisions. DBED currently envisions average funding to be approximately \$10,000 per business in the form of a grant or loan. It is probable that a large number of the eligible businesses would be small businesses. There is no information at this time as to how many businesses might be eligible; however, DBED advises that there are currently between 60 and 75 known commercial entities operated by students in Maryland's public high schools under the age of 19. Small businesses that are not eligible for the financial incentive provisions of the bill, but compete with those that are, could be put at a competitive disadvantage.

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

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