

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 85 (Delegates Harrison and Rawlings)
Economic Matters

Referred to Finance

**MSBDFA - Management Group Contract and Equity Participation Investment
Program**

This amended bill authorizes the Department of Business and Economic Development (DBED) to extend the contract to run the Maryland Small Business Development Financing Authority (MSBDFA) until June 30, 2002 with the option for one additional five-year term. Any extension or renewal contract must include performance standards. It increases from \$100,000 to \$500,000 the amount of equity participation financing allowed for a franchise and removes the \$3 million annual cap on total equity participation financing. An applicant for financing under this program could have at least \$75,000 in equity investment, or a combination of pledged security and equity investment that totals \$75,000, or could pledge \$75,000 in security as is currently required. The bill requires that applicants meet specified moral, demographic, and geographic conditions.

Fiscal Summary

State Effect: Potential indeterminate increase in State expenditures and revenues.

Local Effect: None.

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

Fiscal Analysis

State Effect: While the bill allows DBED to extend the contract with the current administrator of MSBDFA (the MSBDFA Management Group, Inc.) it does not require the department to do so. The current contract expires on February 15, 1998 with an option to extend until February 15, 2000 and will cost approximately \$1.07 million for fiscal 1998. Given the lack of alternative bid proposals at this time, it is not possible to determine the

fiscal impact of renewing with the current contractor as opposed to soliciting new bids.

Removing the \$3 million annual cap on total equity participation financing should not have an immediate impact on State finances. According to DBED, \$500,000 in financing was provided in fiscal 1994, \$50,000 in fiscal 1995, no funding in fiscal 1996, and \$250,000 in financing has been approved to date in fiscal 1997. The fiscal 1998 budget allowance for the program totals \$575,000. Any potential fiscal impact would be in the long-term.

Increasing from \$100,000 to \$500,000 the amount of equity participation financing allowed for a franchise could increase the amount of funding provided under this program. According to DBED, the appropriation for the equity participation financing program as a whole equaled \$750,000 in fiscal 1996; none of these funds were encumbered or spent. Of the \$575,000 appropriation for fiscal 1997, \$250,000 has been encumbered. Therefore, it is assumed that additional funds will be available if increased applications are made.

Altering the requirement that applicants have \$75,000 in net worth pledged as security to allow for equity investment as an alternative could increase the number of individuals and groups that qualify for equity participation financing for the acquisition of a business. This could increase State expenditures on these activities, as well as State revenues from the equity participation.

Small Business Effect: According to DBED, the standards to be met by applicants for financing under this bill are already imposed; therefore, this provision should not impact small businesses. In addition, lifting the cap on equity participation financing should have no immediate impact as discussed above.

Altering the requirement that applicants have \$75,000 in net worth pledged as security to allow for equity investment as an alternative could increase the number of individuals and groups that qualify for equity participation financing for the acquisition of a business. Likewise, increasing the amount of equity participation financing allowed for a franchise from \$100,000 to \$500,000 could increase the amount of funds disbursed to applicants. It cannot be estimated at this time how many enterprises would benefit from these provisions.

In addition, allowing DBED to extend the contract could have an indeterminate effect on small businesses. If DBED chooses to exercise this option, the current contractor (MSBDFA, Inc.) could benefit from this; however, any other small business that might have bid on the contract would not have the opportunity.

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

Fiscal Note History: First Reader - January 21, 1997

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