

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1239 (Delegate Barve, *et al.*)
Economic Matters

Economic Development - Business Financing Funds - Management

This bill provides that the Department of Business and Economic Development (DBED) may privatize the management of the Enterprise Investment Fund and the Challenge Investment Program. DBED may contract for management services for a period of three years; the contract must be awarded to a person with prior experience in venture capital management and investment banking. Current DBED staff may bid for the management contract. DBED may renew the initial contract for an additional two-year term.

Fiscal Summary

State Effect: Potential indeterminate increase in expenditures and revenues.

Local Effect: None.

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

Fiscal Analysis

State Effect: There are approximately \$198,000 in direct administrative costs for the program that administers these business financing funds in the fiscal 1998 budget allowance. This covers the cost of two professionals and one support staff, as well as operating expenditures. This program administers the Enterprise Investment Fund, the Challenge Investment Program, and the Maryland Venture Capital Trust. The Maryland Venture Capital Trust is not included in this bill, though it is anticipated that given current statutory authority administration of this program may be included in the contract. The fiscal 1998 allowance also includes \$206,000 in indirect overhead costs; it is not clear how these funds would be affected. For example should the contractor hire an attorney to handle legal costs, less overhead support would be needed. DBED advises that in this case a lesser percentage

of overhead would be assessed against the fund, with the money instead allocated to the contract.

Should DBED choose to privatize this operation under the bill, it is assumed that the management contract would be competitively bid. DBED assumes that the first-year costs would be roughly parallel to the current administration costs, but that future increases in program activity would raise the costs.

It should be noted that arguments have been made that this program is currently understaffed. It is feasible that bids received for the program management contract could be significantly more expensive than current administrative costs. In particular, should the management fee be based on a percentage of total assets, costs would increase as fund appropriations are made and investment gains realized. The contract could also include incentives with certain percentages of large investment gains accruing to the contractor. To the extent that any such provisions increase program effectiveness, revenues due to investment gains would increase.

Small Business Effect: The bill allows DBED to contract out the management of the business financing funds to a private business entity. DBED may contract with department staff who have formed a private business. If DBED chooses to let a contract, the business entity that wins that contract would benefit from increased revenue and profits. The contracting entity could be a small business.

The Business Financing Funds primarily serve small businesses. To the extent that the management contract is bid at a higher rate than the current administrative costs of the program and the contractor hires additional personnel, these businesses could benefit from the increased services and contacts provided. In addition, to the extent that these management increases allow for more funds to be allocated to the programs and disbursed, businesses could directly benefit. However, any such increases in funds would be determined through the budget process.

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

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