

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 136 (The President. *et al.*)
(Administration)

Budget and Taxation

Maryland Competitive Advantage Financing Fund

This Administration bill creates the Maryland Competitive Advantage Financing Fund within the Department of Business and Economic Development (DBED) to provide financial assistance for the development and expansion of small businesses in the State.

Fiscal Summary

State Effect: General fund expenditures would increase by \$1,977,800 in FY 2000, including \$1,835,000 in PAYGO funds and \$142,800 in operating expenses. General fund expenditures would increase by \$1,969,200 in FY 2001, reflecting inflation and a capital appropriation of \$1,825,000. General fund revenues could increase by an indeterminate amount from increased tax revenues. The FY 2000 budget includes \$2,000,475 in general fund PAYGO and general fund operating expenses contingent upon enactment of this bill.

Local Effect: Revenues for local jurisdictions could increase by an indeterminate amount.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Fiscal Analysis

Bill Summary: The fund will provide financial assistance for the development and expansion of small businesses in the State. The fund consists of: (1) appropriations; (2) federal or private contributions; (3) premiums, fees, penalties, interest payments, and principal payments; (4) proceeds from the sale, disposition, lease, or rental of collateral; (5) application or other fees; (6) investment earnings; and (7) moneys from other sources. The fund may be used to provide financial assistance to eligible applicants and to pay expenses

for administrative, actuarial, legal, and technical services for the program. The financial assistance allowed by the bill includes loans, loan guarantees, interest subsidies, and incentives to private lenders or any other financial assistance designed to secure business loans from financial institutions.

The fund may only finance the costs incurred for: (1) the acquisition or construction of a building or real estate; (2) acquisition, construction, or installation of machinery, equipment, furnishings, fixtures, leasehold improvements, or site improvements; or (3) working capital. The amount of financial assistance for each recipient business must not be less than \$10,000 or more than \$100,000. DBED may set the terms and conditions for loans, loan guarantees and other financial assistance, although, the bill specifies that the term of a loan may not exceed ten years and the applicant must provide at least 10% of the total project costs or capital needed. The term for a working capital loan is one to three years.

In addition to the above mentioned requirements, to qualify for assistance from the fund, a business must: (1) have net revenues of less than \$1,000,000 annually; (2) employ fewer than 100 full-time employees; and (3) have made reasonable efforts to obtain financial assistance on reasonable terms from other sources. The bill also specifies the financial assistance application requirements. The bill further establishes that projects to be funded are “growth related projects” as defined under Smart Growth provisions.

DBED must convene and staff a study panel during the 1999 interim which will review the consolidation of DBED’s current financing funds and financing funding models. DBED must report on the study panel’s findings by December 1, 1999. DBED must report to the Governor and to the General Assembly before January 1 of each year on the number, amount, use, and economic benefits of financial assistance provided by the fund. The bill is effective July 1, 1999 and sunsets June 30, 2001.

Background: Chapter 759 of 1997 (SB 389) established priority funding areas in the State (“Smart Growth” areas). With certain exceptions, that Act prohibits State funding for growth-related projects outside priority funding areas designated by each county.

Currently, there are two State programs that are similar in nature to the proposed Competitive Advantage Financing Fund. The Maryland Small Business Development Financing Authority (MSBDFFA) was created in 1978 by the General Assembly to offer financing assistance to socially or economically disadvantaged business persons in Maryland. MSBDFFA’s financial assistance does not include direct loans except within the Contract Financing Program, which is limited to providing direct loans to businesses with contracts or subcontracts from governmental agencies. It further differs from the proposed fund in that MSBDFFA generally does not provide assistance for retail or start-up operations. In fiscal

1998 MSBDFA dispersed 22 loans, guarantees, and bonds totaling over \$5.3 million.

The Department of Housing and Community Development administers the Neighborhood Business Development Program (NBDP) which targets small businesses in neighborhoods identified for revitalization by local jurisdiction. The program does not focus on businesses owned by economically disadvantaged individuals. In fiscal 1998 NBDP approved 31 loans for \$6.7 million and awarded 18 grants for \$1.3 million.

State Revenues: To the extent that this legislation spurs employment and economic development, tax revenues could increase.

State Expenditures: General fund administrative expenses could increase by an estimated \$142,800 in fiscal 2000, which accounts for a 90-day start-up delay. This estimate reflects the costs of hiring two administrators and one administrative officer on a contractual basis to administer the program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$89,300
Operating Expenses	<u>53,500</u>
Total FY 2000 Operating Expenditures	\$142,800

The fiscal 2000 budget includes \$1,835,000 in PAYGO general funds to capitalize the fund. DBED's capital improvement program projects PAYGO appropriations of \$1,825,000 in fiscal years 2001 through 2004. The budget also includes general fund operating expenditures of \$165,475 to cover the costs of the additional employees. DBED could staff the study panel with existing resources.

To the extent that this legislation spurs employment and economic development in the State, expenditures on certain assistance programs could decrease.

Local Revenues: To the extent that this legislation spurs employment and economic development, piggyback tax and property tax revenues could increase.

Small Business Effect: This bill specifically targets small business owners. Recipients of the fund's financial assistance would benefit by using the funds to enhance or expand their business operations. Other small businesses could also benefit indirectly if the bill increases development and economic activity.

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

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