

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

Senate Bill 394 (Senator Middleton, *et al.*)

Budget and Taxation

Economic Matters

**Business and Economic Development - Maryland Competitive Advantage
Financing Fund**

This bill repeals the sunset on the Maryland Competitive Advantage Financing Fund (MCAFF), which is set to expire at the end of June 30, 2001. It extends the length of initial MCAFF loans for working capital that the Department of Business and Economic Development (DBED) can provide to small businesses from one year to three and the maximum length of working capital loans from three years to five if the borrower meets certain performance criteria.

The bill also repeals the requirement that a loan applicant provide evidence that neither the applicant nor any of its owners has filed for bankruptcy in the last seven years or has any existing liens or judgments. If the applicant or owners of the applicant owe any overdue taxes, the bill requires the taxpayer to provide evidence that the taxpayer: (1) will have paid the taxes in full before closing the loan; (2) is in compliance with a repayment schedule approved by the taxing authority; or (3) is disputing the taxes in good faith and through the appropriate channels. The sunset repeal is effective June 1, 2001; the remaining provisions of the bill are effective July 1, 2001.

Fiscal Summary

State Effect: State finances for MCAFF would continue beyond FY 2001. The Governor's FY 2002 budget includes \$1.8 million in general fund PAYGO expenditures for the fund, which is contingent upon enactment of this bill or HB 464, and approximately \$413,000 in operating and indirect expenses. General fund PAYGO funds would be reduced by \$800,000 if the provisions that repeal certain eligibility requirements for program applicants are not enacted. FY 2002 revenues from investment income and loan interest and repayments are expected to be approximately \$283,800. Out-year expenditures and revenues are expected to remain fairly constant.

Local Effect: Potential decrease in expenditures, to the extent that State loans to small businesses supplement or replace the need for local assistance.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The term of a MCAFF loan may not exceed ten years and the applicant must provide at least 10% of the total project costs or capital needed. If more than half of the proceeds of a loan are for working capital, the term of the loan is limited to one year unless DBED determines an extension for up to two years is appropriate. DBED must review the loan each year to provide an extension. The fund is slated to sunset June 30, 2001.

Applicants and owners must also furnish evidence that they are financially responsible, including a statement or evidence that neither the applicant or any of its owners: (1) has filed for bankruptcy in the seven years preceding the application; (2) has any existing liens or judgments; and (3) owes any overdue State or federal taxes.

Background: The General Assembly created MCAFF in 1999 (SB 136, Chapter 299) to provide loans to small businesses that are unable to borrow from traditional lenders. MCAFF can finance the costs incurred for working capital or acquisition, construction, or installation of real estate, machinery, equipment, furnishings, fixtures, leasehold improvements, or site improvements.

In August 2000, a MCAFF Work Group examined the role of local assistance for small business and whether MCAFF should be administered at the State or local level. In its December 2000 report to the joint chairmen, the work group concluded that while local governments have begun to take advantage of State revolving loan funds that allow them to aid small businesses, participation is uneven and overall assistance to businesses throughout the State is sporadic. Approximately 12 counties and seven municipalities provide revolving loan funds. DBED advises that several of its programs provide funding assistance to small businesses; however, MCAFF is the primary program for direct loans.

The work group offered several recommendations to the legislature, including two proposed in this bill -- removing the sunset provision and extending the initial loan term to three years, with the option of two one-year renewals. The group advised that DBED retain MCAFF because it has accumulated the experience and resources necessary to administer financing programs that would benefit businesses statewide. It noted that lack of capital and credit on reasonable terms is a major obstacle for small businesses seeking

to borrow funds and called for flexibility so that bankruptcy or unpaid taxes did not automatically disqualify an applicant. It advised that bankruptcy does not always indicate borrower irresponsibility.

State Fiscal Effect: Total expenditures, including operating expenses and new loans, are estimated to be \$2.5 million in fiscal 2002. MCAFF earned an estimated \$118,600 in fiscal 2001 and is expected to earn approximately \$283,800 in fiscal 2002. The Department of Legislative Services (DLS) notes that providing loans to businesses with higher credit risks under this bill may incur a higher risk of default. DBED advises that it will rely on its internal underwriting criteria to determine ability to pay.

Small Business Effect: To the extent that MCAFF provides loans that may otherwise be unavailable, this bill will have a meaningful impact on small business. DLS notes that the number of businesses that have received loans has been limited. However, the MCAFF provided loans totaling \$216,000 in its first year of operation (fiscal 2000) to four small businesses and two have been approved so far in fiscal 2001. Only businesses with annual net revenues less than \$1 million and fewer than 100 full-time employees are eligible for program loans. The amount of financial assistance for each recipient must not be less than \$10,000 or more than \$100,000. Under the bill, small businesses may find it easier to qualify for loans and would have more time to repay them.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, *Small Business Lending Report: Joint Chairmen's Report of 2000*, Department of Legislative Services

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