

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 789
Finance

(Senators Exum and Kelley)

Economic Matters

**Business and Economic Development - Maryland Small Business Development
Financing Authority**

This bill expands the purposes of the Maryland Small Business Development Financing Authority (MSBDFFA) to include assisting small businesses that are unable to obtain adequate business financing on reasonable terms because they do not meet financial institutions' credit criteria. It alters the eligibility requirements for the Equity Participation Investment Program that operates under MSBDFFA to allow such businesses to receive loans through the program. The bill also increases the maximum amount payable by MSBDFFA under its guarantee for a long-term loan made by a financial institution from \$600,000 to \$1 million.

Fiscal Summary

State Effect: No direct effect on State finances, although expenditures could increase in future years to the extent that a greater number of applicants qualify for MSBDFFA assistance and program volume increases. Revenues would not be affected.

Local Effect: None.

Small Business Effect: Potential meaningful. More small businesses that have been denied credit by lending institutions would be eligible for loans with reasonable terms.

Analysis

Current Law: The current purposes of MSBDFFA are to assist socially or economically disadvantaged persons to obtain working capital, encourage them to seek government and

other contracts, and encourage financial institutions to make loans to these persons. To be eligible for a loan under this program, the applicant must demonstrate ineligibility for business financing through normal lending channels based on an identifiable physical handicap, membership in a group traditionally denied normal economic or financial resources, or possession of other social or economic impediments beyond the applicant's control.

Background: MSBDFA was created in 1978 to help disadvantaged businesses in Maryland by providing short-term working capital, long-term loans, loan and surety bond guarantees, and surety bonds. The program reported 20 transactions closed in fiscal 2000 (the latest year for which data are available) and a 6.9% default rate. The Department of Business and Economic Development (DBED) contracts with a private company (now Meridian Management Group, Inc.) to manage and market the overall program. Its fiscal 2002 allowance is \$1.2 million.

The Equity Participation Investment Program operated by MSBDFA is designed to encourage development and retention of Maryland-based franchises and technology businesses that are owned and operated by socially or economically disadvantaged persons. MSBDFA may invest up to 45% or \$100,000, whichever is less, of funds to start a franchise operation, or 25% or \$500,000, whichever is less, to acquire a profitable business. The initial investment must be recovered in seven years. It can also invest up to \$500,000 in technology-based businesses, which must be repaid in ten years.

Under the Guaranty Fund program, MSBDFA may subsidize up to 80% of the interest or principal on a long-term loan for working capital, property improvements, or equipment and machinery.

State Expenditures: To the extent that MSBDFA can guarantee a larger amount of funding for long-term loans and increase eligibility for certain loans, the existing funds will diminish more quickly.

The Department of Legislative Services advises that loans provided to borrowers who do not meet credit standards established by lending institutions may incur a higher risk of default.

Small Business Effect: The bill could have a meaningful impact to the extent that small businesses that cannot obtain loans with reasonable terms from financial institutions may obtain working capital with favorable terms from the State, rather than from high-interest lenders.

Additional Information

Prior Introductions: None.

Cross File: HB 945 (Harrison and Rawlings) – Economic Matters.

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

Fiscal Note History: First Reader – March 14, 2001
ncs/jr

Analysis by: Ann Marie Maloney

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510