

**Department of Legislative Services
Maryland General Assembly
2006 Session**

**FISCAL AND POLICY NOTE
Revised**

House Bill 1280

(Delegate Brown, *et al.*)

Economic Matters and Ways and Means

Finance

**Aid to Service-Disabled Veterans and Military Reservists or National Guard
Personnel Called to Active Duty**

This bill provides financial assistance to disabled veterans and activated members of the armed forces reserves and Maryland National Guard. DBED, subject to the availability of funds and in consultation with the Maryland Department of Veterans Affairs (MDVA), is required to implement a program that provides no-interest loans: (1) to provide financial support to small business employers of, and the businesses owned by, activated military reservists (including Maryland National Guard members); and (2) in order to make the home, automobile, or place of employment of a disabled veteran handicapped-accessible. The financial support provided to businesses may be made at any time from the point the military reservist is activated to six months after the end of activation, and is to be based on eligibility criteria including the extent that the activated military reservist is an essential employee. DBED will administer the loan program and is required to adopt implementing regulations, and MDVA must establish loan eligibility criteria.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund expenditures could increase by approximately \$3.0 million in FY 2007. Future years reflect the continuation of the loan program and repayment of loans. Revenues would not be affected.

| (\$ in millions) | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------------|---------|---------|---------|---------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 3.0 | 3.0 | 2.2 | 2.2 | 2.2 |
| Net Effect | (\$3.0) | (\$3.0) | (\$2.2) | (\$2.2) | (\$2.2) |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Significant.

Analysis

Current Law: No similar State or loan program currently exists.

Background: Exhibit 1 lists the number of reservists who have been called to duty nationwide as of February 1, 2006. According to the Department of Defense, 2,323 reservists from Maryland are currently on active duty.

Exhibit 1 Total Number of Activated Reservists February 1, 2006

| <u>Military Service</u> | <u>Individuals Called to Active Duty</u> |
|------------------------------------|--|
| Air Force | 7,559 |
| Army – National Guard and Reserves | 107,802 |
| Coast Guard | 419 |
| Marine Corps | 7,085 |
| Navy | <u>4,959</u> |
| Total | 127,824 |

Chapter 389 of 2003 allows State employees who serve in the military to receive paid leave while on active duty. The leave is limited to the difference between a member's federal active duty base salary and State base salary or wages, and may not exceed an employee's State salary. Eligible employees must elect to use the military administration leave authorized by the Act or the fully paid military leave (up to 15 days) allowed under a separate provision of law. Subsequent legislation extended the termination date of these provisions to June 30, 2005.

Concern over the financial impact on reservists who have been activated has led to legislation by the federal government and states. The Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) was signed into law on October 13, 1994 and is intended to minimize the disadvantages to an individual that occur when that

person needs to be absent from his or her civilian employment to serve in the armed forces. USERRA establishes the cumulative length of time that an individual may be absent from work for military duty and retain reemployment rights to five years (the previous law provided four years of active duty, plus an additional year if it was for the convenience of the government). There are important exceptions to the five-year limit USERRA provides that returning service members are reemployed in the job that they would have attained had they not been absent for military service (the long-standing “escalator” principle), with the same seniority, status, and pay, as well as other rights and benefits determined by seniority.

Reservists and members of the National Guard, when activated, are also afforded legal and financial protections under the Servicemembers Civil Relief Act. These protections include capping at 6% the annual interest rate applied to the outstanding loans of a reservist whose ability to pay financial obligations has been affected by activation. These protections and benefits apply to employees, and not to the employers of activated members of the military.

The federal government operates a variety of programs that assist service-disabled veterans and small business employers of, and businesses owned by, activated reservists. The U.S. Department of Veterans’ Affairs provide a one-time grant of up to \$11,000 to eligible service-disabled veterans for the purchase of a vehicle fitted with adaptive equipment. The U.S. Small Business Administration, under the Military Reservist Economic Injury Disaster Loan Program, provides loans to small businesses that have sustained substantial economic injury as a result of an essential employee (including the owner) being called to military active duty. Loans are provided at a 4% interest rate, up to a maximum term of 30 years and amount of \$1.5 million.

State Expenditures: The bill requires DBED to administer a no-interest program. As a result, general fund expenditures could increase by approximately \$3.0 million in fiscal 2007, which reflects the estimated cost of establishing a viable program.

This estimate is based on the following facts and assumptions:

- Approximately 2,300 reservists from Maryland are currently on active duty. The Congressional Budget Office estimates that approximately 10% of reservists nationwide are either self-employed or are an essential employee of a small business. It is assumed that 25% of affected businesses will receive a loan in the average amount of \$50,000.
- The Department of Veterans Affairs could not provide an estimate on the number of service-disabled veterans who were likely to apply for assistance under the loan

program. It is assumed that loans will be made on behalf of 50 service disabled individuals in the average amount of \$10,000.

- It is assumed that, since most of the loans would be related to operating expenses, the program would be funded by a general fund appropriations and not general obligation bonds.
- The fund will receive a full appropriation in the first two years. Repayment of loans will provide approximately 25% of funding thereafter.

Small Business Impact: Small businesses would benefit from the bill as a result of the financial assistance provided to small businesses that employ or are owned by military reservists.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, Maryland Department of Veterans Affairs, Department of Legislative Services

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