

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1538 (Delegate Barve)
Health and Government Operations

Procurement - Small Business Reserve Program - Eligibility

This bill raises the average annual gross sales thresholds for determining firms' eligibility for the Small Business Reserve Program and extends the program from September 30, 2007 to September 30, 2009.

Fiscal Summary

State Effect: State spending on procurements reserved for small businesses could decrease (all funds) because of increased competition for procurements set aside under the Small Business Reserve Program.

Local Effect: None.

Small Business Effect: Meaningful. More businesses will be eligible to bid on the 10% of State procurements set aside for small businesses. While more firms will be eligible to benefit from the Small Business Reserve Program, the increased competition could drive down the value of contracts awarded to small businesses.

Analysis

Bill Summary: The bill raises the average annual gross sales a firm can generate over the most recent three fiscal years and still qualify as a small business, in the following manner:

- for wholesale distributors, from \$2.0 million to \$7.0 million;
- for retail firms, from \$2.0 million to \$2.5 million;

- for manufacturing firms, from \$2.0 million to \$7.0 million; and
- for service firms, from \$2.0 million to \$8.0 million.

The bill does not change the average annual revenue threshold for construction firms that qualify as small businesses from its current level of \$7.0 million.

The bill also amends Chapter 75 of 2004 to extend the Small Business Reserve Program from September 30, 2007 to September 30, 2009.

Current Law: Chapter 75 of 2004 established the Small Business Reserve Program and defined a small business as either a minority-owned business that meets the criteria specified below, or a business other than a broker that is:

- independently owned and operated;
- not a subsidiary of another firm; and
- not dominant in its field of operation.

In addition, a business must meet the following criteria to qualify for small business certification by the State:

- average gross sales over the last three years did not exceed \$2.0 million in retail operations, wholesale operations, manufacturing operations, or service operations;
- average gross sales over the last three years did not exceed \$7.0 million in construction operations; and
- the firm does not employ more than 25 people in its retail operations, 50 people in either its wholesale or construction operations, or 100 people in either its service or manufacturing operations.

The Small Business Reserve Program requires all State procurement units to structure their procurements so that at least 10% of the total dollar value of their procurements is made directly to small businesses. Under regulations adopted by the Department of General Services (DGS), each agency must prepare an annual forecast of its total procurement spending. The agency must then develop a plan to allocate at least 10% of its forecasted spending to contracts for small businesses serving as prime contractors.

The Small Business Reserve Program is scheduled to terminate on September 30, 2007.

State Expenditures: State procurement spending could decrease by increasing competition for procurements reserved for small businesses. Under the DGS regulations,

each agency must set aside procurements that total 10% of its planned procurement spending for small businesses. However, the actual value of the small business procurements can be less than 10% of total procurement spending if the winning bids for the small business set-asides are less than anticipated. By increasing the number of firms eligible to bid on small business set-asides, the State increases competition for those procurements, which could result in lower winning bids.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of General Services, Board of Public Works, Department of Business and Economic Development, University System of Maryland, Maryland Department of Transportation, Department of Legislative Services

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