

Department of Legislative Services  
Maryland General Assembly  
2007 Session

FISCAL AND POLICY NOTE  
Revised

Senate Bill 23

(Senator Conway, *et al.*)

Education, Health, and Environmental Affairs

Health and Government Operations

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**Procurement - Small Business Reserve Program - Sunset Extension**

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This bill extends the termination date for the Small Business Reserve Program (SBR) for three years, from September 30, 2007 to September 30, 2010.

The bill takes effect July 1, 2007.

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**Fiscal Summary**

**State Effect:** General, special, and higher education fund expenditures for staff to implement the Small Business Reserve program would be maintained through September 2010 (FY 2011). When the program was established in 2004, FY 2007 costs were projected to be \$230,000 in general funds, \$60,200 in special funds, and \$60,200 in higher education funds.

**Local Effect:** None.

**Small Business Effect:** Potentially meaningful. Certified small businesses will benefit from the extension of the Small Business Reserve program's goal of providing at least 10% of State procurement dollars to small businesses.

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**Analysis**

**Current Law:** Chapter 75 of 2004 established the Small Business Reserve Program, which requires 22 designated State agencies to structure their procurement procedures so that at least 10% of the total value of each agency's procurements of goods, supplies,

services, maintenance, construction, construction-related services, architectural services, and engineering service contracts are made directly to small businesses.

State regulations require each affected agency to prepare an annual procurement forecast based on its approved budget, and then develop a plan that allocates at least 10% of its forecasted procurement spending directly to small businesses. Even if procurement expenditures to certified small businesses are not made under procurements reserved for small businesses, they still count toward the small business reserve amount.

A small business is either a minority-owned business 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.

**Background:** Exhibit 1 lists the 22 agencies subject to the Small Business Reserve program, and provides preliminary results for each one from the program's second year of operation. Based on these unaudited figures, the exhibit shows that only 8 of the 22 agencies achieved the program's target of 10% of procurement dollars being awarded to certified small businesses. However, all three of the State's procurement control agencies (Treasurer, Department of Budget and Management, and Department of General Services) achieved the 10% target.

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**Exhibit 1**  
**Percentage of Procurement Dollars Going to Certified Small Businesses**  
**July 1, 2005 – June 30, 2006 (preliminary)**

<u>Agency</u>	<u>Percent of Procurement Dollars</u>
Environment	18.9%
Maryland Stadium Authority	18.0%
State Retirement Agency	12.8%
Treasurer	11.9%
Business and Economic Development	11.6%
Budget and Management	10.7%
General Services	10.0%
Housing and Community Development	10.0%
Maryland Insurance Administration	8.8%
State Police	8.6%
Public Safety and Correctional Services	7.8%
Transportation	7.5%
Natural Resources	7.5%
University System of Maryland	5.4%
Juvenile Services	5.2%
Human Resources	3.8%
Morgan State University	3.7%
Health and Mental Hygiene	3.3%
Maryland Port Administration	3.3%
Education	2.5%
Labor, Licensing, and Regulation	1.7%
State Lottery Agency	1.0%

Source: Board of Public Works

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 28 (Delegate Morhaim) – Health and Government Operations.

**Information Source(s):** Department of General Services, Board of Public Works, University System of Maryland, Maryland Department of Transportation, Department of Budget and Management, Department of Legislative Services

**Fiscal Note History:** First Reader - January 31, 2007  
mll/rhh Revised - Updated Information - February 2, 2007  
Revised - Senate Third Reader - March 27, 2007  
Revised - Enrolled Bill - May 11, 2007

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