Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 958 (Delegate Vaughn, *et al.*)
Economic Matters

Department of Business and Economic Development - Maryland Small Business Development Financing Authority - Small Business Investment Companies

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This bill authorizes the Department of Business and Economic Development (DBED) to use the services of two or more private companies to administer the programs of the Maryland Small Business Development Financing Administration (MSBDFA). If DBED contracts with private companies, one must be located in the Baltimore metropolitan region and one must be located in the Maryland portion of the Washington metropolitan region. DBED has the authority to extend the initial contract to June 30, 2015, and renew that contract for an additional five years.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Minimal. State expenditures (general or special funds) would increase to transition MSDBFA to management by two companies and for additional management fees paid to a second company. In addition, out-year expenditures could increase to provide oversight of another company; however the magnitude depends on how the two companies will share responsibility for MSBDFA programs, and how much additional oversight by DBED would be required, which cannot be reliably determined at this time.

Local Effect: None.

Small Business Effect: Increased management costs for MSBDFA could result in less MSBDFA funding available for financial assistance which could reduce the number of businesses assisted or the amount of assistance provided to each business.

Analysis

Current Law/Background: MSBDFA was established to provide financing incentives to create and expand small businesses, focusing on businesses owned by socially or economically disadvantaged persons. It operates four programs, the Contract Financing Fund, Long-Term Guaranty Fund, the Surety Bond Program, and the Equity Participation Investment Program.

In 1992, the U.S. Congress allowed states to use public funds to establish specialized small business investment companies to serve disadvantaged business owners. Two years later, MSBDFA organized itself into such a company.

Since 1994, funds under MSBDFA have been managed privately by Meridian Management Group (MMG). The current contract expires June 30, 2007. DBED may extend the MSBDFA contract in effect on June 30, 2007 to June 30, 2012, and may renew the contract for up to two additional five-year terms.

From 1995 to 2004, MSBDFA is estimated to have created 3,224 direct jobs and 2,044 indirect jobs. It is estimated to have generated $121.4 million in State tax receipts. As of June 30, 2006, MSBDFA had fund balances of approximately $2.2 million.

In fiscal 2006, MSBDFA was estimated to have created 171 jobs through financing and to assist in retaining 283 jobs. It is projected to help create 250 jobs and help retain 300 jobs each year in fiscal 2007 and 2008.

In fiscal 2006, MSBDFA had total income of $9.7 million. It had $9.2 million in new loan encumbrances expenditures, and approximately $1.7 million in operating expenses, management fees, and indirect administrative expenses.

In fiscal 2007, MSBDFA is projected to have revenues of $19.3 million and expenditures of $18.5 million, including $16.6 million in new loan encumbrances. In fiscal 2008, MSBDFA is projected to have revenues of $19.2 million and expenditures of $18.6 million, including $16.6 million in new loans.

State Expenditures: Since DBED would be contracting with two companies instead of one, total management fees would likely increase, which could result in less funding being available to provide financial assistance to small businesses. In addition, a new contract would likely have to be negotiated with MMG. The amount of the increase would depend on the contract negotiated with the new company and MMG, and on how the use of two companies to operate MSBDFA would be structured.

Transitioning to using two companies to manage MSBDFA could entail significant start-up costs for DBED. Those costs would depend on how MSDBFA programs were managed by the two companies. The bill does not specify whether or not specific programs would be offered through each company, or whether all four programs would need to be available through both businesses. DBED would need to work closely with any new company selected in order to ensure a smooth transition, and to provide adequate oversight.

DBED advises that overseeing the management contract involves several different divisions, including the Secretary's Office, the Attorney General, and oversight by financing programs. However DBED was not able to reliably estimate how many full-time equivalent positions are involved in providing oversight for MSBDFA.

Other administrative expenditures after the transition would depend on the operational impact of using two companies to operate MSBDFA. If two companies could achieve operational efficiencies through competition that reduces DBED's costs to monitor MSBDFA, these could outweigh additional oversight by DBED required for two companies (*i.e.* monitoring company performance, additional audits, etc.). Alternatively, if using two companies did not increase efficiency or in fact decreased it, additional personnel could be needed.

To the extent DBED administrative costs increase to monitor two companies, State expenditures (general and special funds) could increase; the amount of any increase cannot be reliably estimated but is likely to be minimal.

Small Business Effect: Increasing management costs for MSBDFA would reduce the amount of funding available to provide financial assistance to small businesses. This could result in fewer small businesses being assisted, or in smaller grants. Using two companies to operate MSBDFA could result in some small businesses having more access to those companies based on geographic location. However as the bill does not increase funding for MSBDFA, and MSBDFA already serves small businesses Statewide, this effect is likely to be minimal.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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