

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 71 (Chair, Education, Health, and Environmental Affairs
Committee)(By Request - Departmental - General Services)
Education, Health, and Environmental Affairs Health and Government Operations

Procurement - Small Business Reserve Program - Sunset Extension

This departmental bill reauthorizes the Small Business Reserve (SBR) program for six years, until September 30, 2016.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Minimal. Affected State agencies can continue to carry out SBR with existing budgeted resources. To the extent that small businesses cannot realize the same efficiencies in providing goods and services to the State that larger firms can realize due to scale, procurement costs for the 23 agencies that participate in SBR may be slightly higher than they would be if the program were not reauthorized.

Local Effect: None.

Small Business Effect: The Department of General Services (DGS) has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Chapter 75 of 2004 established SBR, subject to termination on September 30, 2007. Chapter 514 of 2007 extended the program's authorization by three years, to September 30, 2010. DGS is responsible for certifying small businesses.

SBR requires most 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 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.

A small business is defined in statute as either a certified 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 do not exceed \$2.0 million for manufacturing firms, \$3.0 million for retail firms, \$4.0 million for wholesale distributors, \$4.5 million for architectural and engineering firms, \$7.0 million for construction firms, or \$10.0 million for service firms; 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, manufacturing, or architectural and engineering operations.

The most recent expansion of SBR occurred in 2008, when Chapter 9 substituted the Department of Information Technology for the Department of Budget and Management, and Chapters 388 and 389 added the Maryland Transportation Authority to the list of agencies subject to SBR, bringing the total number to 23.

Background: According to DGS, small businesses make up approximately 97% of all businesses in the State. Currently more than 6,000 certified small businesses in Maryland are eligible to participate in SBR. **Exhibit 1** shows the program's results for the 22 agencies subject to SBR in fiscal 2008, the most recent data available. Based on these figures, only 4 of the 22 agencies achieved the program's target of 10% of procurement dollars being awarded to certified small businesses. Procurement expenditures under SBR totaled \$131.6 million in fiscal 2008, which is 6% of total State procurement expenditures.

Exhibit 1
Percentage of Procurement Dollars Going to Certified Small Businesses
Fiscal 2008

<u>Agency</u>	<u>% of Procurement Dollars</u>
Treasurer's Office	20.8
Morgan State University	11.1
Housing and Community Development	11.1
Stadium Authority	10.0
State Police	9.5
Natural Resources	8.9
Business and Economic Development	8.0
General Services	7.8
Transportation	7.8
Retirement	6.2
Insurance Administration	6.1
Public Safety and Correctional Services	6.0
University System of Maryland	5.4
Labor, Licensing, and Regulation	5.2
Health and Mental Hygiene	4.6
Budget and Management	4.6
Environment	4.3
Port	4.1
Education	3.4
Human Resources	3.2
Juvenile Services	1.1
Lottery	0.8
Program Total	6.0

Source: Governor's Office of Minority Affairs

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Board of Public Works, Department of Budget and Management, Department of General Services, Governor's Office of Minority Affairs, Maryland Department of Transportation, University System of Maryland, Department of Legislative Services

Fiscal Note History: First Reader - January 21, 2010
a/rhh

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Procurement – Small Business Reserve Program – Sunset Extension

BILL NUMBER: SB 71

PREPARED BY: Jerry Krasnick, Department of General Services

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation would have a very positive effect on Maryland small businesses. The Program allows certified small businesses to bid on set-aside State projects worth tens of millions of dollars. Allowing the Program to sunset would negatively impact many of the 6,000 businesses currently enrolled in the Program by taking away opportunities set aside for small businesses.