Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 2 (Senators Conway and Peters)
Education, Health, and Environmental Affairs Economic Matters

Task Force on the Minority Business Enterprise Program and Equity Investment Capital

This bill establishes a Task Force on the Minority Business Enterprise (MBE) Program and Equity Investment Capital, jointly staffed by the Department of General Services (DGS) and the Maryland Department of Transportation (MDOT). Members of the task force are not entitled to compensation but may be reimbursed for their expenses. The task force must report its recommendations to the Governor and the General Assembly and develop draft legislation by December 1, 2010.

The bill takes effect June 1, 2010, and terminates May 31, 2011.

Fiscal Summary

State Effect: Minimal. DGS and MDOT can handle staffing responsibilities and expense reimbursements with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 463 of 2008 established the Task Force on the Minority Business Enterprise Program and Equity Investment Capital, subject to termination on December 1, 2009. The task force met several times during the 2009 interim to review the State's economic development strategies and the extent to which those strategies encourage investment in MBEs. Members heard presentations from experts on venture capital and from small and minority business owners. The task force did not issue a final report before its scheduled termination.

The State's MBE program establishes a goal that at least 25% of the total dollar value of each agency's procurement contracts be awarded to MBEs, including 7% to African American-owned businesses and 10% to women-owned businesses. There are no penalties for agencies that fail to reach these targets. Instead, agencies are required to use race-neutral strategies to encourage greater MBE participation in State procurement.

An MBE is a legal entity, other than a joint venture, that is:

- organized to engage in commercial transactions;
- at least 51% owned and controlled by one or more individuals who are socially and economically disadvantaged; and
- managed by, and the daily business operations of which are controlled by, one or more of the socially and economically disadvantaged individuals who own it.

MBEs include not-for-profit entities organized to promote the interests of physically or mentally disabled individuals.

A socially and economically disadvantaged individual is defined as a citizen or legal U.S. resident who is African American, Native American, Asian, Hispanic, physically or mentally disabled, a woman, or otherwise found by the State's MBE certification agency to be socially and economically disadvantaged.

A socially disadvantaged individual is someone who has been subject to racial or ethnic prejudice or cultural bias within American society because of their membership in a group and without regard to individual qualities. An economically disadvantaged individual is someone who is socially disadvantaged whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities compared with those who are not socially disadvantaged. An individual with a personal net worth in excess of $1.5 million, adjusted annually for inflation, is not considered economically disadvantaged.

Background: Private equity firms invest in nonpublic companies with the intent of earning a return from the companies' cash flow and from the proceeds generated by selling or merging their holdings after several years. They are distinguished from venture capital firms by their focus on more mature companies with a strong potential for growth. Venture capital firms tend to focus on start-up companies.

A study conducted in 2000 by the Milken Institute and the U.S. Department of Commerce found that the annual growth rate for minority-owned firms was 17%, or six times the growth rate of all firms. Moreover, while MBEs represent about 30% of all firms, but they receive between 2 and 3% of all investments made by private equity firms.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of General Services, Maryland Department of Transportation, Milken Institute, Department of Legislative Services

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