Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 54 (Chair, Finance Committee, *et al.*) (By Request - Departmental - Business and Economic Development)

Finance Economic Matters

Business and Economic Development - Maryland Economic Adjustment Fund

This departmental bill makes several changes to the Maryland Economic Adjustment Fund (MEAF) including (1) eliminating the MEAF Committee; (2) altering eligibility requirements under the loan program and eliminating the priority currently provided to defense contractors; (3) eliminating the minimum interest rate that must be charged on loans; and (4) altering application requirements.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: None. The bill primarily alters the purposes for which existing funds may be used. To the extent it requires administrative changes, the department can handle them within existing resources.

Local Effect: None.

Small Business Effect: The Department of Business and Economic Development (DBED) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The bill makes several changes to MEAF as follows:

- The bill eliminates the MEAF Committee that is currently authorized, subject to the authority of the Secretary of Business and Economic Development to provide funding under the program. Financial assistance from the fund will be approved by the Secretary or a designee.

- The bill alters the eligibility requirements for receiving loans under the program. Under current law, loans may only be made to companies in communities that suffer dislocation due to defense adjustments and for the purpose of modernizing manufacturing operations, commercializing technology, or competing in new markets. In addition, priority is to be given to defense contractors or companies started by former defense workers who lost employment with a defense contractor. The bill eliminates these two requirements and instead authorizes loans to be made to any company with 50 or fewer employees.

- The bill eliminates the requirement that loans provided from the fund have a minimum annual interest rate of 4%.

- The bill eliminates requirements that a loan applicant provide information on (1) each location in the State of a financed activity; (2) the expected economic impact of the loan; and (3) evidence that the applicant was unable to obtain affordable conventional financing. Before making a loan, however, DBED is required to determine that the applicant was unable to obtain traditional and affordable financing.

Current Law: The MEAF Committee comprises seven members appointed by the Secretary of Business and Economic Development. Committee members serve two years and are entitled to reimbursements for expenses as provided under State law. The committee is authorized to adopt bylaws, retain consultants, or do anything necessary or convenient to carry out its mission.

MEAF may be used to (1) make loans to new or existing companies in communities adversely affected by defense adjustments in order to modernize manufacturing operations, commercialize technology, or compete in new markets; (2) make grants to local or regional governmental or nonprofit economic development revolving loan funds in the State; and (3) pay administrative costs incurred by DBED. In disbursing MEAF loans, the committee is required to give priority to defense contractors and companies started by former defense workers previously employed by defense contractors.

Loan applicants are required to provide information including (1) a detailed strategic business plan for achieving the goal of commercialization technology or modernizing manufacturing for long-term growth; (2) the amount of money necessary to achieve these activities and the amount of money requested from DBED; (2) the amount of money available to the applicant in the absence of DBED financial assistance; (3) each location in the State of a financed activity; (4) the expected economic impact on each location; (5) evidence that the applicant was unable to obtain financing on affordable terms through normal lending channels; (6) financial information including a current balance sheet, profit and loss statement, and credit references; and (7) any other information requested by DBED.

Loans provided under the program must have a minimum annual interest rate of 4%, and any loan made with money provided by the Economic Development Administration (EDA) of the U.S. Department of Commerce may not exceed the maximum loan amount adopted by EDA regulations.

Background: MEAF, established in 1994 in response to the pending 1995 Base Realignment and Closure Process, provides funds to new or existing companies in communities adversely affected by defense adjustments. The funds help companies modernize their manufacturing operations, develop commercial applications for technology, or enter into and compete in new economic markets. MEAF can also be used to provide grants to capitalize local revolving funds in jurisdictions where military installations have either closed or substantially decreased operations. MEAF comprises funds from both EDA and the State. The ending fiscal 2009 fund balance for the program was $388,721. The Governor's proposed fiscal 2011 budget does not include additional funding for the program.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 20, 2010
ncs/rhh

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Business & Economic Development – Maryland Economic Adjustment Fund

BILL NUMBER: SB 54

PREPARED BY: Department of Business and Economic Development

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ 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 will have no impact on small business in Maryland.