

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 896
 Finance

(Senator Jennings, *et al.*)

Economic Matters

**Military Personnel and Veteran-Owned Small Business No-Interest Loan
 Program and Fund**

This bill establishes a special, nonlapsing fund to provide no-interest loans under the existing Military Personnel and Veteran-Owned Small Business No-Interest Loan Program. The Department of Business and Economic Development (DBED) may use money in the fund to provide loans to eligible applicants, subject to specified requirements.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: Assuming the program would otherwise remain funded at its FY 2015 and 2016 proposed level of \$300,000, the amount of general funds for the program does not change in FY 2016 or 2017. However, the general fund appropriation is used to capitalize the new special fund. Thus, special fund revenues for DBED increase by \$300,000 in FY 2016 and 2017 from annual general fund appropriations to capitalize it. General fund expenditures decrease in future years and may cease if loan repayments are sufficient to provide ongoing program funding. Special fund revenues for DBED further increase beginning in FY 2016 from loan repayments and investment earnings while general fund revenues decrease correspondingly. Special fund expenditures for DBED increase by at least \$300,000 annually beginning in FY 2016 for loans made under the program.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	(-)	(-)	(-)	(-)	(-)
SF Revenue	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
GF Expenditure	\$0	\$0	(-)	(-)	(-)
SF Expenditure	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Net Effect	\$0	\$0	\$0	\$0	\$0

Note: (-) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The Secretary of Business and Economic Development must administer the fund. Any investment earnings of the fund must be credited to the fund, and the bill exempts the fund from provisions of current law that require investment earnings and interest to accrue to the general fund. The fund consists of (1) money the State appropriates to the fund; (2) money made available to the fund through federal programs or private contributions; (3) repayments from loans provided by DBED under the program; (4) proceeds from the sale, disposition, lease, or rental of collateral related to loans provided by DBED under the program; and (5) any other money made available to the fund.

In making loans under the program, DBED, in consultation with the Maryland Department of Veterans Affairs (MDVA), must take into consideration how to maximize the number of veterans, military reservists, and National Guard personnel who would benefit from the loans. If the availability of funds is limited, DBED, in consultation with MDVA, must give priority to veteran-owned small businesses and businesses owned by military reservists and National Guard personnel who are called to active duty.

Current Law: Eligible program loan applicants include (1) small businesses that employ military reservists and National Guard members called to active duty; (2) businesses owned by military reservists and National Guard members who are called to active duty; (3) veteran-owned small businesses; and (4) businesses employing a service-disabled veteran.

Loans must be made under the program for the purpose of (1) providing financial support to a business owned by a military reservist or National Guard member called to active duty or a small business that employs them; (2) making the home, motor vehicle, or place of employment of a veteran accessible to individuals with disabilities; and (3) defraying other necessary expenses, as determined by MDVA, incurred by a business that employs a service-disabled veteran, or a veteran-owned small business.

Background: The Military Personnel and Veteran-Owned Small Business No-Interest Loan Program is administered by DBED in consultation with MDVA. The program was established in 2006 to assist military reservists and National Guard members called to active duty, service-disabled veterans, and businesses that employ or are owned by such persons. Chapter 105 of 2013 expanded eligibility for participation in the program to

include all veteran-owned small businesses and eliminated the requirement for a veteran to have a service-related disability to use the program. The program receives an annual general fund appropriation. The fiscal 2015 working appropriation and Governor's proposed fiscal 2016 allowance is \$300,000 each year.

According to the program's fiscal 2014 annual report, DBED has approved 32 loan transactions totaling \$1.4 million since the inception of the program through fiscal 2014. The total outstanding balance of loans in the portfolio is \$547,280. DBED approved eight loans in fiscal 2014 totaling \$345,000 in program funds.

State Fiscal Effect: Assuming the program remains funded at its fiscal 2015 and proposed fiscal 2016 level of \$300,000, special fund revenues for DBED increase by \$300,000 in fiscal 2016 from the general fund appropriation being used to capitalize the new fund rather than directly fund the program. Sufficient funding is anticipated in future years to maintain the program's ability to provide \$300,000 in loans each year. Special fund revenues for DBED further increase beginning in fiscal 2016 from loan repayments and investment earnings while general fund revenues decrease correspondingly. As noted above, the total outstanding balance of loans for the program was \$547,280 at the end of fiscal 2014. Under the bill, these loan repayments accrue to the special fund, rather than the general fund. In addition, funds not encumbered by DBED in a given fiscal year remain in the special fund, rather than reverting to the general fund. The program did not encumber \$150,000 in fiscal 2013 but encumbered its entire appropriation in fiscal 2014.

General fund expenditures necessary to continue to capitalize the fund decrease from the current level of \$300,000 and may cease in future years if loan repayments are sufficient to provide ongoing program funding. However, this effect is not likely to occur until fiscal 2018. Even so, special fund expenditures for DBED increase by at least \$300,000 annually beginning in fiscal 2016 (due to capitalization from a general fund appropriation, loan repayments, and investment earnings) for loans made under the program.

Small Business Effect: The program makes no-interest loans to eligible businesses, many of which are small businesses. DBED retains loan repayments in the special fund established under the bill, rather than remitting the money to the general fund, which may eventually lead to additional funding being available for eligible businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 16, 2015
min/rhh Revised - Senate Third Reader - March 30, 2015

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510