

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 853

(Chair, Ways and Means Committee)(By Request -
Departmental - Commerce)

Ways and Means

Finance

Small, Minority, and Women–Owned Businesses Account – Alterations

This emergency departmental bill expands the eligible uses of the Small, Minority, and Women-Owned Business Account (SMWOBA) to include grants in areas declared to be federal disaster areas or subject to a federal or State declaration of emergency. In those circumstances, eligible fund managers may provide financial assistance in the form of a grant or by converting a prior loan to a grant – with a \$50,000 limit on either form of assistance to a single business and an aggregate limit of \$10.0 million in a fiscal year.

Fiscal Summary

State Effect: The Department of Commerce can handle the bill’s requirements with existing budgeted resources. The bill does not affect revenues into or expenditures from SMWOBA, as discussed below.

Local Effect: Many eligible fund managers for SMWOBA are local economic development entities, which benefit from additional flexibility to provide grants or to convert loans to grants subsequent to a disaster or emergency; however, to the extent those funds would have otherwise been repaid, local revenues and subsequent local expenditures decrease.

Small Business Effect: Commerce has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: The distribution of video lottery terminal (VLT) proceeds differs by each video lottery facility. However, a small percentage of gross VLT proceeds is distributed to SMWOBA each fiscal year. Grants from SMWOBA go to eligible fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State. Fund managers must allocate at least 50% of available funds to eligible businesses in the jurisdictions and communities surrounding the State's video lottery facilities.

Background: Based on recent experience, including the State's response to COVID-19, Commerce advises that small businesses affected by disasters or emergencies are in need of quick capital and often do not want to take on additional debt. Existing limitations on several of the department's financing programs can make it difficult or impossible to deploy funds quickly, efficiently, and in a way that can provide immediate help to affected small business owners. The bill allows Commerce to deploy SMWOBA funds quickly to an affected area and leverage its fund managers' expertise in how best to assist businesses in impacted communities. These funds would offer a quick injection of support following a disaster or emergency and complement other funding resources as they become available.

Chapter 39 of 2021 authorizes up to \$10.0 million to be transferred to SMWOBA in fiscal 2021 from the Recovery Now Fund (a special fund established by the Act to receive and distribute \$306.0 million in authorized Rainy Day Fund balance transfers).

State Expenditures: SMWOBA funds are allocated to eligible fund managers and then used to provide investment capital and loans as allowed under current law. Funds repaid to the fund managers over time do not accrue to SMWOBA – they are held by the fund managers, outside of the State budget, to be used to provide additional rounds of assistance. Therefore, authorizing fund managers to issue grants or convert prior loans to grants under limited circumstances does not affect State revenues into or expenditures from SMWOBA. For context, with the \$10.0 million fiscal year limit in the bill, eligible fund managers have provided about that amount of financial assistance annually in recent years.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Commerce; Department of Legislative Services

Fiscal Note History:
rh/vlg

First Reader - February 17, 2021
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Small, Minority, and Women-Owned Businesses Account – Alterations

BILL NUMBER: HB 853

PREPARED BY: Michael Siers

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

According to a report from the US Senate Committee on Small Business and Entrepreneurship, Maryland has the highest per capita number of minority-owned businesses in the country. However, according to the same report, significant gaps remain between minority-owned and non-minority-owned businesses. In 2012, the report estimated that minority-owned businesses contributed roughly one-third as many jobs as minority-owned firms to the state economy. Non-minority-owned businesses in the state reported sales that were four times higher than those for minority-owned businesses.

The biggest obstacle to growing small, minority-, and women-owned businesses, both in Maryland and nationally, is access to capital. As described in a report by the Small Business Administration, this is due to a number of reasons including disparities in personal wealth, differences in credit scores, and discrimination in business lending. For example, the report found that the median household net worth of Black or African-American households was only 7.6 percent of that of non-minority households (\$8,650 compared to \$113,822).

Access to capital for small, minority-, and women-owned businesses is critical at all times, but especially in times of crisis. Significant research has found reduced lending to these firms in times of crisis, such as during recessions. In times of uncertainty, lenders often increase the requirements associated with loans, and this frequently results in lower lending rates to small, minority-, and women-owned businesses. This is not necessarily done intentionally, but is more a

reflection of existing disparities. According to the report by the SBA, “women owners tend to have fewer years of industry experience, as well as startup experience compared with men. Blacks and Hispanics have slightly lower average industry experience...and much less startup experience, compared with Whites.”

The lower lending levels are borne out in the current pandemic. A study by the National Community Reinvestment Coalition studying access to PPP loans found that “Black and White matched-pair testers experienced different levels of encouragement to apply for loans, different products offered, and different information provided by bank representatives.” While demographic data on PPP loans is incomplete, a study by the New York Times and Urban Institute found that “75 percent of loans went to businesses in census tracts where the majority of residents are white.” In Baltimore, the Baltimore Business Journal found a similar pattern.

The differences in access to capital during the current pandemic have had real consequences. A recent analysis from the University of California, Santa Cruz of Census data has estimated that 41 percent of Black-owned businesses have closed as a result of COVID-19 nationally, compared with 17 percent of white-owned businesses.

Within Maryland, the Small, Minority and Women-Owned Business Account – Video Lottery Terminal Fund (the Program) serves as a critical way to provide small, minority-, and women-owned businesses with access to capital. Since the program’s inception, over \$67.2 million in funding has been approved to entrepreneurs who may have difficulty securing other forms of funding. The proposed legislation would expand the program to be able to quickly offer disaster assistance to small, minority-, and women-owned businesses. Because the funding would be administered through an existing program, businesses would be able to receive critical funding sooner, increasing the likelihood they are able to remain open. Additionally, because the program has existing relationships with small, minority-, and women-owned businesses, the assistance will help support Maryland businesses most vulnerable in a disaster. By specifically targeting the most vulnerable companies, the program will have a greater return on investment than a broader application of funding to all businesses in the state.