

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 554

(Senator Patterson)

Finance and Budget and Taxation

Ways and Means

Maryland New Start Act of 2022

This bill establishes the Maryland New Start Grant Program in the Maryland Department of Labor (MDL) and the Maryland New Start Microloan Program, along with a nonlapsing special fund, in the Department of Commerce. MDL must award grants to at least five eligible organizations to create or support existing entrepreneurship development programs that assist specified formerly imprisoned individuals or specified individuals approved for release by a correctional facility. Commerce may award collateral-free loans to these formerly or currently imprisoned individuals. Commerce, in consultation with the Governor’s Office of Small, Minority, and Women Business Affairs (GOSBA), must administer the microloan program. The Governor must include an appropriation to the Maryland New Start Microloan Fund and for the Maryland New Start Grant Program in the annual budget bill in fiscal 2024 through 2028. **The bill takes effect July 1, 2022, and terminates June 30, 2029.**

Fiscal Summary

State Effect: General fund expenditures increase by \$500,000 annually from FY 2024 through 2028 for the programs, with special fund revenues and expenditures for Commerce increasing by \$300,000 annually, as discussed below. Although discretionary, funding is also assumed in FY 2023, of which \$175,000 is included in the FY 2023 budget. Additionally, general fund expenditures increase by \$50,800 in FY 2023 only for GOSBA. Special fund revenues and expenditures for Commerce may further increase due to loan repayments being recirculated through the program until the special fund terminates.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
SF Revenue	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
GF Expenditure	\$550,800	\$500,000	\$500,000	\$500,000	\$500,000
SF Expenditure	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Net Effect	(\$550,800)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Maryland New Start Grant Program

An organization may apply for a grant under the program and partner with another organization when applying and conducting entrepreneurial development programming. The bill specifies the criteria of a grant application, and MDL may provide additional eligibility and application requirements.

An entrepreneurship development program must include a business plan competition for imprisoned individuals, reentry services (including a work-readiness program), executive mentoring with local business owners, entrepreneurial training, and access to financing.

MDL may give priority to an application in awarding grants as specified in the bill. The recipient of the grant must contribute 25% of the amount of the grant from existing or new non-State sources, which may include indirect costs or in-kind contributions.

MDL may not utilize more than 10% of the money appropriated for the program for administrative costs. The bill specifies annual reporting requirements of organizations that are awarded grants. By January 1, 2029, MDL must report to the Governor and the General Assembly on the program as specified in the bill. MDL must adopt regulations to implement the grant program.

Maryland New Start Microloan Program

Upon the referral of an organization conducting an entrepreneurial development program under the New Start Grant Program and subject to available funds, a covered individual participating in an organization's entrepreneurial development program may apply for a collateral-free loan of up to \$50,000 to establish a business. The referral must include a recommendation for the amount of the loan, and Commerce must take into consideration the referral and recommendation when determining whether to issue a loan, but Commerce is not bound by them. Commerce may issue the loan and must specify the terms of the loan.

The Maryland New Start Microloan Program Fund consists of revenues from various sources, including any money appropriated by the State, loan repayments made through the program, and interest earnings. The Secretary of Commerce must administer the fund, and the fund may be used for administrative costs and the issuance of loans. Commerce may not utilize more than 10% of the money appropriated to the fund for administrative costs.

By January 1, 2029, Commerce must report to the Governor and the General Assembly on the fund and the program as specified in the bill. Commerce must adopt regulations to implement the microloan program.

Current Law: Chapter 315 of 2015 required MDL, in consultation with the Department of Public Safety and Correctional Services (DPSCS) and the Maryland Small Business Development Financing Authority, to establish a pilot program for small business development by ex-offenders, subject to the availability of funds. The program was to assist individuals exiting the correctional system by providing training in how to establish small businesses and funding to establish small businesses. However, funding was never made available for the pilot program, so the program terminated on December 31, 2020, without ever being launched.

MDL's Division of Workforce Development and Adult Learning (DWDAL) oversees Correctional Education throughout Maryland's State correctional facilities. DWDAL's Office of Correctional Education provides 25 career training opportunities "behind the fence." Offerings vary by institution but include training in automotive skills, barbering, construction, and welding. All occupational courses lead to a portable, industry-recognized credential that contributes to an inmate's employability after release. In addition to occupational programming, the Office of Correctional Education oversees academic and transitional courses throughout Maryland's prisons. Academic programming includes GED preparation ahead of earning a Maryland high school diploma and English as a second language courses. Prior to release, inmates may complete transitional courses to ease their reentrance to society. These offerings include classes in parenting, employment readiness, financial literacy, and life skills.

In order to further support the transition back to the workplace, under the Maryland Reentry Initiative program, MDL has five reentry navigators stationed in various regions of the State. The primary role of the reentry navigator is to facilitate connections for returning citizens in their search for employment opportunities. In partnership with DPSCS, reentry navigators visit individuals "behind the fence" and connect with pre-release inmates to ensure they have access to workshops, vital document replacement, workforce training, barrier removal, and more, all of which contributes to their employability.

State Fiscal Effect:

Department of Commerce Funding

The bill requires the Governor to include an appropriation to the Maryland New Start Microloan Program Fund in the annual budget bill over the five-year period from fiscal 2024 through 2028. This analysis assumes, although discretionary, funding is also provided in fiscal 2023, for loans and administrative duties. The Department of Legislative Services (DLS) assumes a minimum appropriation of \$300,000 is needed for a viable microloan program. The fiscal 2023 budget, as amended by the House, restricts \$175,000 in general funds within the Rainy Day Fund for Commerce's operating expenses associated with establishing the program, contingent upon enactment of this bill.

Commerce may use up to 10% of the appropriation for administrative costs. Assuming an annual appropriation of \$300,000, administrative costs total \$30,000, which Commerce advises is sufficient to administer the program. That leaves approximately \$270,000 for loans to qualified formerly and currently incarcerated individuals each year. To the extent that the Governor provides more than \$300,000 for the program in any year, general fund expenditures and corresponding special fund revenues and expenditures are greater and enable Commerce to provide additional loans. Commerce may need a part-time or full-time employee to assist with administering loans if funding is significantly more than \$300,000, but this expense would be within the 10% administrative cost allowance. Alternatively, to the extent less than \$300,000 is appropriated in a given year, less funding is available for loans and the administrative cost allowance.

As the bill authorizes Commerce to make loans, special fund revenues may further increase from fiscal 2023 through 2029 (until the program terminates) as funds are repaid, with additional special fund expenditures as those funds are redistributed under the program. It is unclear what happens to any outstanding loan obligations or remaining funds upon termination of the program.

Maryland Department of Labor Funding

The bill requires the Governor to include an appropriation to the Maryland New Start Grant Program in the annual budget bill over the five-year period from fiscal 2024 through 2028. This analysis assumes, although discretionary, funding is also provided in fiscal 2023, for grants and administrative duties. DLS assumes a minimum appropriation of \$200,000 is needed for a viable grant program. MDL may use up to 10% of the appropriation for administrative costs. Assuming an annual appropriation of \$200,000, administrative costs total \$20,000, which MDL advises is sufficient to administer the program. That leaves approximately \$180,000 for grants to at least five eligible organizations to create or support existing entrepreneurship development programs each year. To the extent that the

Governor provides more than \$200,000 for the program in any year, general fund expenditures are greater and enable MDL to provide additional grants. Alternatively, to the extent less than \$200,000 is appropriated in a given year, less funding is available for grants and the administrative cost allowance.

Governor's Office of Small, Minority, and Women Business Affairs Funding

GOSBA anticipates needing at least one contractual employee to assist in the administration of the loan program established by the bill. DLS assumes one contractual grant administrator provides consulting support to Commerce beginning October 1, 2022, for nine months. Thus, general fund expenditures for GOSBA increase by \$50,846 in fiscal 2023 only. Although these are administrative costs of the program, the general fund support is assumed to be provided directly to GOSBA, rather than provided to the special fund and then disbursed to GOSBA.

Contractual Position	1.0
Salary and Fringe Benefits	\$43,503
Operating Expenses	<u>7,343</u>
Total FY 2023 GOSBA Expenditures	\$50,846

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Small Business Effect: The bill may assist formerly and currently incarcerated individuals create new small businesses by providing qualified individuals with collateral-free loans of up to \$50,000 to establish a business.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 158 (Delegate J. Lewis) - Ways and Means.

Information Source(s): Governor's Office of Small, Minority, and Women Business Affairs; Department of Commerce; Maryland Department of Labor; Department of Budget and Management; Department of Public Safety and Correctional Services; Department of Legislative Services

Fiscal Note History:
rh/ljm

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