SB 1008

Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1008 (Senator Hayes)
Finance

Economic Development - Small Business Guaranty Fund - Alterations

This bill modifies the Maryland Small Business Development Financing Authority's (MSBDFA) Long-term Guaranty Program by specifying that a guaranty provided under the program may be supported by (1) the full faith and credit of the State or (2) any other legal instrument promising a financial institution restitution or reimbursement for its loan losses, as specified. The terms and conditions of the legal instruments may not be so onerous as to discourage the financial institution from offering the loan.

Fiscal Summary

State Effect: Special fund expenditures for MSBDFA are likely not materially affected; however, the bill may create operational effects for the State Treasurer's Office (STO) and limit availability for general obligation (GO) bond authorizations, consolidated transportation bonds, and other forms of State debt, as discussed below. Revenues are not affected.

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Minimal. Program activity is limited.

Analysis

Current Law: MSBDFA provides financing options for small businesses that are not able to qualify for financing from private lending institutions or are owned by socially and economically disadvantaged persons. Subject to specified conditions, the Department of Commerce may (and does) contract for and engage the services of some or all of the MSBDFA staff to administer the authority's programs. MSBDFA has four programs:

the Contract Financing Program; the Long-term Guaranty Program; the Surety Bond Program; and the Equity Participation Investment Program.

Under the Long-term Guaranty Program, MSBDFA may guarantee up to 80% of the principal and interest of a long-term loan of up to $2.0 million made by a financial institution for working capital, refinancing existing debt, equipment, making necessary improvements to real property, or acquiring real property. Guarantees under the program are subject to various specified requirements, including that the loan term be no longer than 10 years; MSBDFA may only approve a guaranty if the authority determines the loan will have a substantial economic impact. The program is implemented through the Small Business Development Contract Financing Fund, a special fund established for that purpose. MSBDFA administers the fund.

Debt Requires Authorization to Collect Sufficient Taxes

Under Article III, Section 34, of the Maryland Constitution, no debt may be contracted by the General Assembly unless such debt is authorized by a law providing for the collection of an annual tax or taxes sufficient to pay the interest on such debt as it falls due, and also to discharge the principal thereof within fifteen years.

State Fiscal Effect: Special fund expenditures for MSBDFA are likely not materially affected, as activity under the Long-term Guaranty Program is historically quite limited. Commerce advises that it has not guaranteed a loan under the program since fiscal 2020. Currently, when a loan is guaranteed through the program using its fund balance, Commerce keeps a portion of the loan amount, about 5% to 10%, in reserve. The bill's changes to allow for other legal instruments promising a financial institution restitution or reimbursement for its loan losses do not materially affect this existing process.

However, even though program activity is limited, any guaranty provided under the program supported by the full faith and credit of the State, as authorized by the bill, would create an operational effect on STO, which must track and report on the guaranty as State debt. STO advises that such a guaranty would also limit availability for GO bond authorizations, consolidated transportation bonds, and other forms of State debt. Payment of the guaranty in the event of default would likely involve an appropriation in the annual budget. The bill also does not authorize a tax to be levied in an amount sufficient to cover the guaranty – a constitutional requirement for State debt – so it is unclear whether the provision can be implemented in its current form.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 601 (Delegate Phillips, *et al.*) - Ways and Means.

Information Source(s): Department of Commerce; State Treasurer's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 23, 2025
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