



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
Kelly M. Schulz | Secretary of Commerce

DATE: March 2, 2021
BILL NO: Senate Bill 252
BILL TITLE: Maryland Small Business Development Financing Authority – Minority Business Enterprise Procurement Contract Financing Program
COMMITTEE: Senate Finance

Statement of Information

Senate Bill 252 proposes to establish and add a new fund under the Maryland Small Business Development Financing Authority Program (MSBDFA). The proposed Minority Business Enterprise Procurement Contract Financing Program would provide financing assistance for working capital to “Certified” Minority Business Enterprises (MBE) specifically seeking to obtain and perform on State procurement contracts.

The financing would be in the form of loans and grants to MBEs with net worth no greater than \$2,000,000. Also, if the General Assembly enacts legislation implementing Sports and Events Wagering, the Bill proposes to capture ten percent (10%) of any proceeds received by the State. The Sports and Events Wagering revenue would be used to provide funds for the new program.

The Maryland Small Business Development Financing Authority (MSBDFA) program was created by the Maryland General Assembly in 1978. Contract Financing (CF) was the first fund initiated under the program. We would like to bring to your attention that the CF fund is currently operating and continues to be a critical financing tool for MBEs. Of the four MSBDFA funds, CF is consistently one of the most active components.

CF funds may be used for working capital and the acquisition of equipment needed to begin, continue, or complete work on contracts where a majority of funds are provided by a federal, state or local government agency or utilities regulated by the Public Service Commission. Applicants may also qualify for financing prior to the award of a contract.

During the last five fiscal years, the Contract Financing Fund provided loans in the total amount of \$5.2 million to 17 small, minority and woman owned businesses. Additionally, the Equity Participation Investment Program (EPIP) under MSBDFA has provided loans in the total amount of \$4.3 million to 23 small, minority and woman owned businesses. EPIP also has the capability to provide working capital to facilitate performance on contracts, both government and private-commercial.

The Department would need an increase in General Funds of approximately \$1.0 million to cover an increase in program activity and operating costs directly related to the proposed new program component. Additionally, the Department uses a private contractor, Meridian Management Group, Inc. (MMG) to manage the MSBDFA program. Operating expenses for the MSBDFA program for FY 2022 include a management fee to the contractor equal to \$1.8 million. It is probable the

contractor would request additional compensation to manage the proposed new program component.

The proposed new program component is duplicative and would contribute additional expense and complexity to the program. The program is currently an effective tool to address the need for capital by the diverse racial, ethnic and gender population in our State that it serves. Additionally, the program has a substantial impact each year on Maryland's economy by helping local businesses start, expand, and create and retain employment opportunities. The MSBDFA program is an important component of the Department's strategy to assist small businesses.