

House Bill 1206 White Paper

Procurement – Disadvantaged Business Enterprise (DBE) Reevaluation Assistance Program
– Established

Prepared for the Maryland General Assembly Government Labor and Elections Committee

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I. The Federal Reevaluation Crisis and Its Immediate Impact

The federal Disadvantaged Business Enterprise (DBE) program is undergoing significant changes that require previously certified firms to undergo reevaluation. Until these firms are reevaluated and approved, federal funding recipients may be unable to confidently establish DBE participation goals on federally funded contracts. This has created uncertainty across the country and has resulted in a substantial slowdown in DBE contracting opportunities.

For Maryland, this is not a minor administrative issue. When DBE goals cannot be set or counted, prime contractors are no longer structurally required to include certified DBE firms in their bids. As a result, opportunities for disadvantaged firms decline immediately. This affects revenue, payroll, bonding capacity, and overall business stability.

II. Maryland's National Exposure

Maryland is one of the largest Unified Certification Programs (UCPs) in the nation. Public reporting presented to the Maryland Board of Public Works indicates that Maryland maintains a directory of more than 10,000 certified firms, including over 9,000 DBE firms and several hundred Airport Concessions DBE (ACDBE) firms. Maryland has been cited as accounting for approximately 18% to 25% of all federally certified DBE firms nationwide.

Because Maryland represents such a significant share of the national DBE ecosystem, any disruption to reevaluation processes has disproportionate consequences for our State. The scale of Maryland's certified firms means that delays translate directly into economic disruption at a statewide level.

III. Estimated Economic Exposure for Maryland

To understand the magnitude of the risk, it is helpful to consider reasonable economic assumptions based on publicly reported data and industry averages.

Employment Exposure: National construction industry data indicates an average of approximately 8 to 9 employees per small construction establishment. Using a conservative planning estimate of 9 employees per DBE or ACDBE firm, and applying that to Maryland's estimated 9,700 certified DBE/ACDBE firms, approximately 87,000 Maryland jobs are directly tied to firms operating within this certification ecosystem.

If only 25% of these firms experience meaningful revenue interruption during the reevaluation period, approximately 21,800 jobs would be connected to affected businesses. If 50% are affected, the number rises to approximately 43,700 jobs. If 75% are affected, more than 65,000 Maryland jobs could be tied to firms experiencing significant contracting disruption.

Revenue Exposure: National subcontractor revenue surveys show that a large portion of small contractors generate between \$5 million and \$15 million annually. Using a conservative average annual revenue estimate of \$5 million per firm, and assuming that 50% of Maryland's certified firms experience even a 10% revenue contraction during reevaluation delays, approximately \$2.4 billion in annual business revenue would be placed at risk. Under a more moderate scenario—assuming a \$10 million average revenue and a 15% contraction—the annual revenue exposure could exceed \$7 billion statewide.

Tax Revenue Exposure: Using a conservative payroll estimate of \$60,000 per employee, and applying a blended effective state and local income tax rate of approximately 6.5%, each affected job represents roughly \$3,900 in annual income tax revenue. Including estimated sales tax contributions from household spending, total state and local tax exposure per job can reasonably be estimated at approximately \$5,700 annually.

Under a 50% firm disruption scenario affecting approximately 43,700 jobs, this equates to an estimated \$249 million in annual state and local tax exposure. This estimate does not include corporate income taxes, business property taxes, or secondary economic multiplier effects.

These figures are planning estimates designed to illustrate scale. Even under conservative assumptions, the economic exposure to Maryland is measured in billions of dollars of business activity and hundreds of millions in tax revenue.

IV. Policy Response Under House Bill 1206

House Bill 1206 establishes a time-limited DBE Reevaluation Assistance Program within the Department of Social and Economic Mobility, in collaboration with the Department of Commerce. The program provides practical technical assistance to eligible Maryland-based firms that must undergo federal DBE reevaluation.

The assistance includes application preparation support, financial documentation review, ownership and control documentation review, narrative and affidavit preparation, legal structure compliance guidance, pre-submission review for completeness, and administrative appeal support that does not include legal representation.

The legislation includes reporting requirements to measure the number of firms served, the number successfully reevaluated, and the estimated federal funding preserved. The Act sunsets after two years, ensuring that it addresses the current crisis without creating a permanent expansion of government.

V. Conclusion: Protecting Maryland's Business Ecosystem

Maryland's economic values include expanding opportunity, increasing participation in government contracting, and strengthening minority business development. If federal reevaluation delays significantly reduce DBE participation, the result will be fewer contracts for disadvantaged firms, reduced income for businesses that reinvest in Maryland communities, lower tax revenue, and potential business closures.

House Bill 1206 is a stabilization measure designed to preserve Maryland's contractor ecosystem during a period of federal uncertainty. By ensuring that eligible firms are properly prepared for reevaluation, Maryland can protect jobs, preserve tax revenue, and maintain a competitive and diverse procurement marketplace.