

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 215

(Chair, Finance Committee)(By Request - Departmental -
Commerce)

Finance

Ways and Means

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

This departmental bill alters the eligible uses of the Small, Minority, and Women-Owned Businesses Account (SMWOBA) to allow for grants of up to \$10,000 in conjunction with a loan. **The bill takes effect July 1, 2024.**

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: Local revenues and expenditures may be affected beginning as early as FY 2025, as discussed below.

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: SMWOBA, established in 2007, is a special, nonlapsing fund that is administered by Commerce. Generally, the account is used to provide investment capital and loans to small, minority, and women-owned businesses in the State.

A small percentage of gross video lottery terminal (VLT) proceeds is distributed to SMWOBA in Commerce each fiscal year. Commerce then provides grants from

SMWOBA to eligible fund managers – in practice, mostly a mixture of county development corporations and private firms. The fund managers then 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. 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.

SMWOBA also receives funding from the Strategic Energy Investment Fund in increasing increments through fiscal 2028 to fund access to capital for small, minority, women-owned, or veteran-owned businesses in the clean energy industry in the State.

Chapter 116 of 2021 expanded the eligible uses of 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. This statewide expansion is permanent.

Chapters 490 and 491 of 2022 expanded the eligible uses of SMWOBA to include grants to eligible businesses and nonprofit organizations in Anne Arundel County and the City of Annapolis when in a local state of emergency, as declared by the principal executive officer. Fund managers may provide direct grants or convert prior loans to grants, with a \$50,000 limit on either form of assistance to a single entity. Commerce must approve any such assistance prior to distribution or conversion of the funds. This local expansion terminates June 30, 2024.

Background: Commerce advises that it believes pairing a \$10,000 grant with a loan will increase SMWOBA demand and activity by offering small businesses more flexible funding opportunities to assist them with their capital needs. Adding a grant component to the program makes it more attractive to potential borrowers and helps with deploying SMWOBA funds. Despite statutory authorization to provide assistance in the form of both investment capital and loans, in practice, financial assistance under SMWOBA has been provided in the form of loans; the fund managers cannot provide investments due to federal securities laws.

State Fiscal Effect: SMWOBA funds, which are a portion of VLT proceeds, are allocated to eligible fund managers and then used to provide loans. The bill does not alter the allocation of VLT proceeds to SMWOBA. 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, altering the forms of financial assistance that fund managers may provide does not directly affect State

revenues into or expenditures from SMWOBA, although it may alter how fund managers use available funding. For example, Commerce advises that it intends to allow fund managers more flexibility in using available funds for administrative expenses as compensation for additional program demand and foregone loan repayments.

Local Fiscal Effect: Many eligible fund managers for SMWOBA are local economic development entities, which benefit from additional flexibility to provide grants of up to \$10,000 in conjunction with a loan beginning in fiscal 2025. This may increase program activity, resulting in increased local expenditures (loans, grants, and administrative costs) and revenues (loan repayments). However, the effects on future year revenues and expenditures are attenuated to the extent that funds provided as grants or used to defray administrative expenses would have otherwise been loaned out and repaid and then been available for additional rounds of loans.

Additional Information

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

Designated Cross File: HB 26 (Chair, Ways and Means Committee)(By Request - Departmental - Commerce) - Ways and Means.

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

Fiscal Note History: First Reader - January 12, 2024
km/ljm Third Reader - March 14, 2024
Revised - Amendment(s) - March 14, 2024
Revised - Clarification - March 14, 2024

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

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

BILL NUMBER: SB0215

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

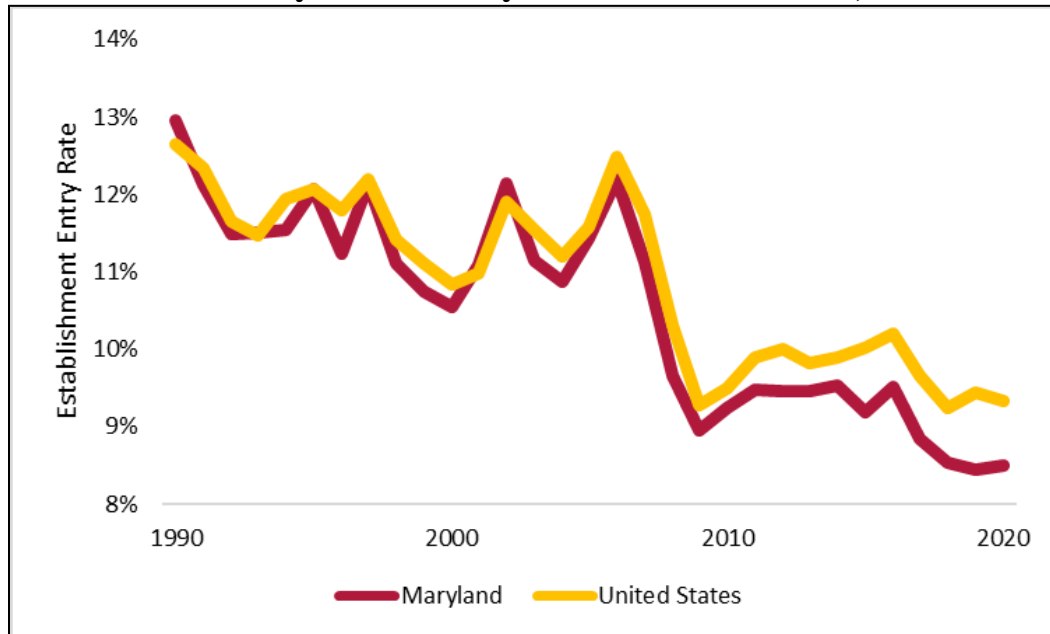
This proposal allows Fund Managers of the Small, Minority, and Women-Owned Businesses Account (SMWOBA) to award grants up to \$10,000 for businesses receiving a loan through the program.

SMWOBA is a successful program in providing access to capital for small, minority, and women-owned businesses. Since inception, the program has deployed over \$89.9 million. In FY 21, fund managers settled 229 transactions for a total of \$14.1 million. These transactions directly supported 453 new jobs and 830 retained jobs. According to an economic impact estimate in the FY 21 Consolidated Incentives Report, these 1,283 jobs supported an additional 787 jobs in FY 21.¹ The report estimates that each year those jobs are supported \$344.4 million in economic activity is supported statewide and \$5.1 million in state sales and income taxes. This means that **if jobs supported by the program are sustained for only three years the additional state tax revenues exceed the initial outlay**. The program is not only a valuable asset in promoting new business formation, but it likely leads to an increase in state revenues.

¹ <https://commerce.maryland.gov/Documents/ProgramReport/maryland-jobs-development-act-full-report-FY21.pdf>
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SMWOBA’s ability to promote and sustain new business formation, especially in traditionally marginalized groups, is important given Maryland’s current economic situation. The chart below shows the establishment entry rate in Maryland and the United States between 1990 and 2020 (the most recent year data is available). Maryland has begun lagging the nation, and SMWOBA serves as an important tool in growing Maryland’s economic future.

Establishment Entry Rate in Maryland and United States, 1990 - 2020



Source: Business Dynamics Statistics, US Census Bureau

Although SMWOBA is an effective program, it has not been fully utilized. The available balance as of the most recent annual report (FY 22) was over \$8.5 million. This proposal, by allowing loan recipients to also receive grants, increases the flexibility that business owners have with the funding they receive, thereby making the program more attractive. The Department expects an increase in uptake among Maryland’s entrepreneurs.

If the Department awards an additional \$8.5 million in grants and loans as a result of this change and those awards have similar employment impacts as all settled transactions in FY 21, approximately 772 direct jobs would be created and retained in Maryland small businesses and more would be created through indirect and induced effects. Increasing the utilization of SMWOBA as the proposal would do will have a meaningful impact on Maryland’s small businesses and the Maryland economy in general.