

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 661
Finance

(Senator Pugh, *et al.*)

Economic Development - Equity Participation Investment Program - Small
Businesses

This bill modifies the purposes for which the Equity Participation Investment Program (EPIP) in the Maryland Small Business Development Financing Authority (MSBDFA) may provide financial assistance. Investment recovery terms are standardized to seven years. The bill also makes an independent appraisal of the value of a business entity conditioned on there being a dispute between the borrower and MSBDFA as to the value of the business entity.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Modifying the purpose for which funds may be used has no effect on State finances. Provisions related to recovery terms and independent appraisals have no material effect on State finances or operations. The Governor's proposed FY 2015 budget includes \$3.5 million for EPIP.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The purpose of EPIP is modified to include "small businesses," instead of "franchises, technology-based businesses, and other businesses." Similarly, MSBDFA is authorized to provide equity financing under the program to help eligible individuals

create and develop small businesses. Conforming changes are made to program application requirements to reflect EPIP's new purpose. Equity participation financing in any small business is limited to \$2 million. Investments must be recoverable within seven years.

Current Law: The purposes of EPIP are to (1) encourage and help socially disadvantaged individuals create and develop franchises, technology-based businesses, and other businesses and acquire existing businesses in the State and (2) assist small businesses that, because they do not meet the established credit criteria of financial institutions, cannot obtain adequate business financing on reasonable terms through normal financing channels.

MSBDFA may (1) provide equity participation financing to help eligible individuals create and develop franchises, technology-based businesses, and other businesses; (2) buy, hold, and sell qualified securities; (3) prepare, publish, and distribute technical studies, reports, and other materials with or without charge; and (4) provide and pay for advisory services and technical assistance that are necessary or desirable to carry out the program.

Equity participation financing in any business is limited to \$2 million for a technology-based business and the lesser of \$2 million or 49% of the total initial investment for a franchise or an enterprise acquiring an existing business. Investments must be recoverable by MSBDFA within 10 years for a technology-based business and otherwise must be recoverable within 7 years. The value of the business entity at the time of recovery must be determined after obtaining at least one independent appraisal.

Background: Chapter 228 of 2005 authorized MSBDFA to fund other businesses under EPIP besides franchises and technology-based businesses.

MSBDFA provides financing assistance to socially or economically disadvantaged persons in Maryland. MSBDFA has four programs: Contract Financing Program, Long-Term Guaranty Program, Surety Bond Program, and EPIP. The Governor's proposed budget for fiscal 2015 includes \$6.3 million in total for MSBDFA.

The definition of "small business" varies widely and depends on the source. The State Government Article defines a small business as a corporation, partnership, sole proprietorship, or other businesses entity, including its affiliates, that (1) is independently owned and operated; (2) is not dominant in its field; and (3) employs 50 or fewer full-time employees. The U.S. Small Business Administration generally defines a "small business" as one with annual revenues of up to \$7.0 million. Certain industries are allowed higher annual revenues and/or also have an employee limit, which is typically 500.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development,
Department of Legislative Services

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ncs/rhh

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