



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

November 30, 2020

The Honorable Guy Guzzone
Chairman, Senate Budget and Taxation Committee
3 W Miller Senate Office Building
Annapolis, MD 21401

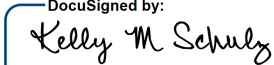
The Honorable Maggie McIntosh
Chairman, House Appropriations Committee
House Office Building, Room 121
Annapolis, MD 21401-1991

RE: Report on SMWOBA Fund Manager Activity – 2020 JCR, Page 205

Dear Chairmen Guzzone and McIntosh:

In accordance with Page 205 of the 2020 Joint Chairmen's Report, the Maryland Department of Commerce is pleased to present the Report on SMWOBA Fund Manager Activity. I look forward to your review of the report and will be pleased to respond to any questions. If my staff can be of further assistance, or if you have any questions regarding this report, please feel free to contact me at 410-767-6301.

Sincerely,

DocuSigned by:

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Kelly M. Schulz
Secretary

Enclosure

cc: Members, Senate Budget and Taxation Committee
Members, House Appropriations Committee
Emily Haskell, Department of Legislative Services



Report on Small, Minority, and Women-Owned Businesses Account Fund Manager Activity

In accordance with p. 205 of the 2020 Joint Chairmen's Report

Submitted by
Maryland Department of Commerce

November 2020

Introduction

The 2020 Joint Chairmen's Report requires the Maryland Department of Commerce (Commerce) to submit a report on its Fund Manager activities under the Small, Minority, and Women-Owned Businesses Account. The report is required to include a discussion on Commerce's plans for disbursing additional funds; program lending goals for each fund manager, actions taken by Commerce to promote fund manager's use of available funds and to ensure fund managers meet program lending goals; and outreach efforts by Commerce to increase awareness of the program for eligible businesses.

Background

Article XIX of the Maryland Constitution authorizes video lottery terminals (VLTs) to fund education. This provision was enacted pursuant to Chapter 5, Acts of the 2007 Special Session and ratified by Maryland voters in the November 2008 General Election. As a result, Chapter 4, Acts of the 2007 Special Session also became effective and established the Small, Minority, and Women-Owned Businesses Account (SMWOBA or the Account) under the Authority of the Board of Public Works (BPW).¹

State Government Article §9-1A-27 requires that 1.5 percent of the proceeds from VLTs at each video lottery facility be paid into the Account. State Government Article §9-1A-35 requires BPW to make grants to eligible fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State, of which at least 50 percent must be allocated to such businesses in the jurisdictions and communities surrounding a video lottery facility. BPW initially designated the Department of Commerce (Commerce), to manage the Account on their behalf, through a Memorandum of Understanding dated August 22, 2012. However, in May 2017 Governor Hogan approved Chapter 453, Acts of 2017, which transferred authority over the program from BPW to Commerce.

Licenses were awarded to operate VLT casinos in Cecil, Worcester, Anne Arundel, Allegany, and Prince George's Counties as well as Baltimore City. The casinos in Cecil, Worcester, and Anne Arundel Counties began VLT gaming operations on September 27, 2010, January 4, 2011, and June 6, 2012, respectively. VLT gaming operations opened in Allegany County at the Rocky Gap Resort in May of 2013. The Baltimore VLT facility opened in August of 2014. National Harbor in Prince George's County opened in December of 2016. The Account began receiving funds during fiscal year 2011 when the first VLT facility began gaming operations.

¹ See also State Government Article §9-1A-35

Awards are as follows²

Fund Manager	Secretary Item 15 (4/17/13)	Secretary Item 9 (6/18/14)	Secretary Item 10 (06/18/14)	Secretary Item 4 (6/23/15)	Secretary Item 7 & 8 (6/22/16)
\$ Amounts MILLIONS					
Anne Arundel Economic Development	\$3.36	\$2.00		\$1.85	\$4.00
Baltimore County Economic Development			\$1.50	\$1.60	\$3.00
Baltimore Development Corporation			\$1.00	\$1.75	\$3.00
FSC First					\$2.00
Howard County Economic Development			\$1.50	\$1.75	\$3.00
Maryland Capital Enterprises	\$1.00			\$1.00	\$2.68
Meridian Management Group	\$3.50	\$2.00		\$2.15	\$4.00
Tri County Council of Western MD			\$1.10	\$1.00	\$2.50
Total Awarded	\$7.86	\$4.00	\$5.10	\$11.10	\$24.18

Summary of Program Performance

Since inception of the SMWOBA, the fund managers have approved 624 transactions totaling \$77.5 million and settled³ 544 transactions totaling \$64.9 million. These loans are expected to create and retain 7,421 jobs, while leveraging other private sector funds of \$183.6 million. Principal payments returned back to the fund manager for relending totaled \$29.3 million.

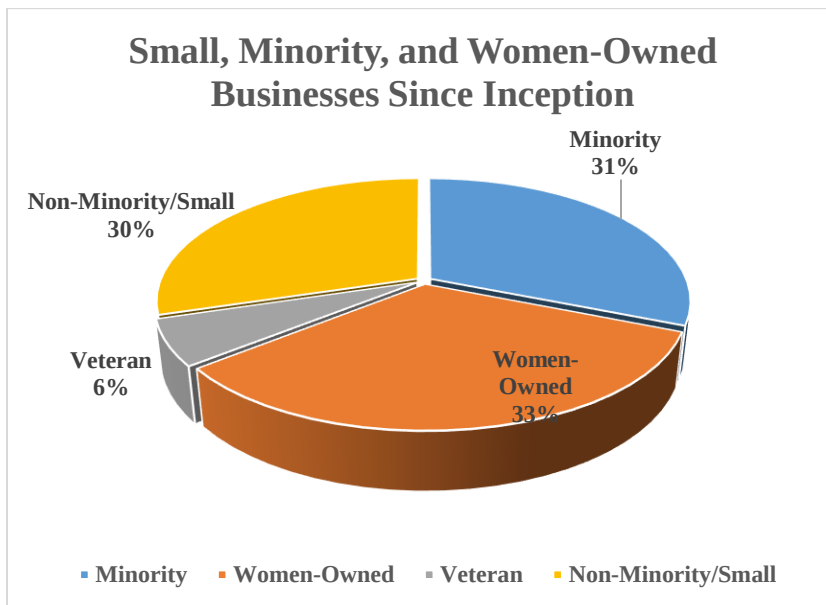
² Board of Public Works Secretary's Agenda: Item 15, April 13, 2013, Initial three Fund managers; Agenda Item 9, June 18, 2014 additional grant funds for two initial Fund Managers; Agenda Item 10, June 8, 2014, four new Fund Managers approved; Agenda Item 4, June 23, 2015 Additional grant funds for seven incumbent Fund Managers; Agenda Item 7 & 8 Additional grant funds for seven incumbent Fund Managers and initial funds to one new Fund Manager. There was no appropriation for FY18, 19, or 20 as funds were redirected to support education funding.

³ Settled is the step after approval. At that stage there is a signed legal agreement between the business and the Fund Manager.

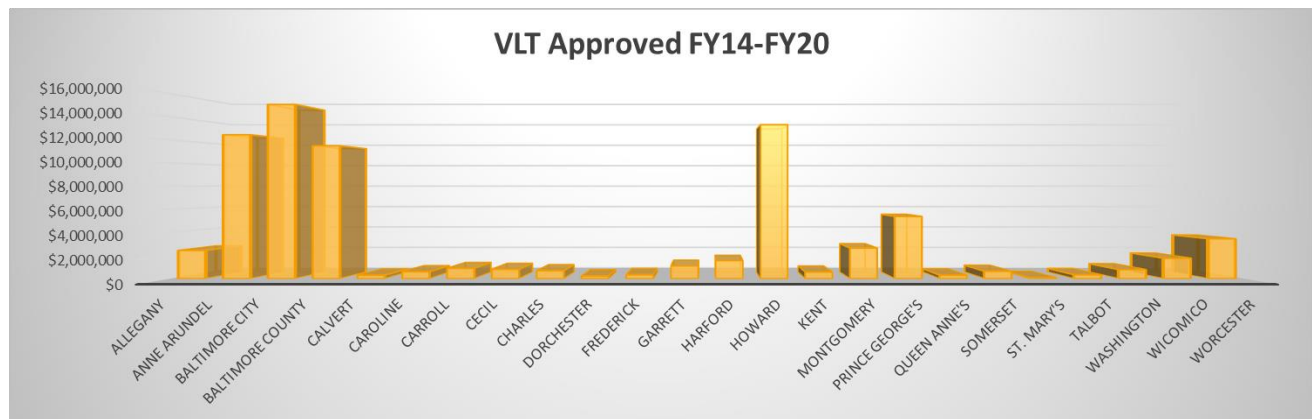
Fund Manager	# Approved Since Inception	Amount Approved	Private Sector Dollars Leveraged	New Jobs	At Risk/Retained Jobs
Anne Arundel County Economic Development	104	\$ 16,241,000	\$ 45,319,619	794	625
Baltimore County Economic Development	46	\$ 6,080,800	\$ 32,149,000	303	421
Baltimore Development Corporation	45	\$ 7,021,100	\$ 29,255,024	467	1036
FSC First	16	\$ 2,763,000	\$ 33,849,067	199	124
Howard County Economic Development	72	\$ 12,626,025	\$ 3,730,000	793	833
Maryland Capital Enterprise	156	\$ 6,455,839	\$ -	282	392
Meridian Management Group	158	\$ 21,009,632	\$ 3,493,814	760	1309
Tri County Council of Western MD	27	\$ 5,347,152	\$ 14,258,501	206	215
Since Inception	624	\$ 77,544,548	\$ 162,055,025	3,804	4,955

Fund Manager	# Settled Since Inception	Amount Settled	Private Sector Dollars Leveraged	New Jobs	At Risk/Retained Jobs
Anne Arundel County Economic Development	89	\$13,631,000	\$39,367,842	644	533
Baltimore County Economic Development	42	\$5,585,800	\$31,246,000	294	411
Baltimore Development Corporation	42	\$6,879,600	\$28,246,024	453	1044
FSC First	11	\$1,876,000	\$30,490,359	150	106
Howard County Economic Development	61	\$10,651,025	\$34,070,110	714	704
Maryland Capital Enterprise	153	\$6,230,839	\$0	241	359
Meridian Management Group	123	\$15,950,466	\$9,606,864	467	1012
Tri County Council of Western MD	23	\$4,153,152	\$10,597,501	140	149
Since Inception	544	\$64,957,882	\$183,624,700	3,103	4,318

This funding has supported 180 minority owned businesses, 188 women-owned businesses, 30 veteran owned businesses, and 146 non-minority small businesses.



Over 74% of SMWOBA funds have been utilized in the targeted areas and disbursed across the State.



Fund Manager Goals

The goals below were born out of a legislative audit recommendation⁴ that Commerce should establish specific goals and objectives and related outcome measures to ensure Commerce and fund managers are working together to achieve the desired results of the program. Commerce along with the fund managers developed some basic goals for the program that targeted geographic areas, industry sectors, and minority businesses. A customer service survey was also designed to gauge overall satisfaction with the fund managers and their processes and the benefits of the program to the businesses. For example, Commerce's recent FY2020 survey indicated that businesses that received SMWOBA funding planned to hire new employees. This survey data lets Commerce know the program is working to grow businesses. Additionally, Commerce engaged with Towson University's Regional Economic Studies Institute⁵ to examine the economic impact of SMWOBA program. The study found that the SMWOBA "program has had a sizable and positive impact on Maryland's "(p. 9). From inception to 2017, the study indicated that the program "resulted in an increase of 3,059 jobs above what would have happened if the program had not existed" and those jobs supporting nearly \$466 million in output and almost \$160 million in wages in FY2017" (p. 9). These goals continue to be a part of the existing fund managers' contract proposals and are reviewed annually.

Fund managers make best efforts to achieve the following goals:

- One loan to a veteran-owned business
- Two loans to women-owned business
- One loan to a disabled-owned business
- Two loans in a rural targeted area
- One loan in the clean energy sector
- One loan in the manufacturing sector
- One loan in the cyber industry sector

⁴ Office of Legislative Audits, Performance Audit Report Video Lottery Operations Revenue Small, Minority, and Women-Owned Businesses Account, October 2015.

⁵ Towson University, Regional Economic Studies Institute: Economic Impact of Video Lottery Terminal Funds Received by Small, Minority, and Women-Owned Businesses in Maryland, January 25, 2018.

During fiscal years 2019 and 2020 fund managers approved the following related to the goals.

- 5 loans to veteran owned businesses
- 51 loans to women-owned businesses
- 1 loan to a disabled-owned business
- 30 loans in the rural targeted area
- 10 loans in the manufacturing sector
- 8 loans in the cyber industry sector

During the same time, fund managers settled the following related to the goals

- 4 loans to veteran owned businesses
- 46 loans to women-owned businesses
- 27 loans in the rural targeted area
- 1 in the clean energy industry sector
- 13 in the manufacturing industry sector
- 7 in the cyber industry sector

While not every category milestone was met, the fund managers are lending to a variety of industry sectors and populations, most notably manufacturing, retail, and food services. As noted above 70% of the funds have been deployed to minority-owned, women or veteran-owned businesses. Commerce tracks the fund managers' activity in its Salesforce Partner Portal. Additionally, Commerce meets with fund managers at least once a year, or more as needed, to discuss potential partnerships and strategies for deploying funds.

Fund Manager Outreach

The fund managers have very robust outreach activities that include promotions across multiple social media platforms, including blog posts and podcasts. Additionally, they have strong relationships with their local Chambers of Commerce and financial institutions. One fund manager recently hired a minority owned business to design marketing materials for the program paired with broadcast and online media outlets. Referrals are another source of outreach. One fund manager has made connections with local accounting firms that resulted in three loans. Fund managers also participate and sponsor workshops and seminars in partnership with local, state, and federal agencies. The SMWOBA program and fund managers have an excellent reputation in the small business community. Commerce tracks SMWOBA and fund manager success by conducting an annual survey. Results for the fiscal year 2020 survey showed that 80% of those surveyed responded that the loan was helpful for growing its business, and 90% responded that they were satisfied with the service they received from their fund manager.

Commerce Outreach

Commerce assists in marketing SMWOBA through its website, and other social media platforms. SMWOBA is also a part of the Commerce toolbox of business assistance that Commerce's regional business development representatives offer when they are out meeting and talking with businesses. The regional team assesses each expansion or retention prospect they are involved in

as a potential candidate for SMWOBA. As appropriate, the regional representatives explain the program to these businesses and make connections to fund managers. The regional team also works closely with the economic development organization in each county to coordinate on such deals. Commerce has developed its own program brochure that highlights each fund manager's program, terms and conditions. Brochures are on hand when Commerce staff are meeting with businesses or participating in trade shows or networking events. These outreach efforts coincide with the strategic plan developed in fiscal year 2019 that included a statewide outreach strategy. Commerce will be reviewing and updating that plan with the addition of 2021 funds.

Fiscal Year 2021 Funds

On average, the fund managers approve about \$10 million in loans each year. The program was not capitalized for three years prior to the current fiscal year. This year's budget includes \$17.1 million in new SMWOBA funds. The eight existing fund managers were invited to reapply for additional SMWOBA funds and were required to submit an application no later than August 17, 2020. All eight fund managers reapplied. The application consisted of four sections: 1) Minimum Qualifications; 2) Additional Grant funds Utilization Proposal; 3) Past Performance of Loan Portfolios; and 4) Additional Required Submittals (bank statements, financial statements, annual reports etc.). Requested funds totaled \$21.5 million. All eight fund managers qualified for additional funds under their existing contracts. Additionally, Commerce will be advertising a Request for Proposals for up to three new fund managers. Commerce expects the entire fiscal 2021 appropriation to be awarded by the end of the fiscal year.

Impact of COVID

Commerce had several meetings with the fund managers at the beginning of the pandemic to discuss how best to assist businesses in the SMWOBA portfolio during this time. Lending activity nearly came to a halt as businesses closed due to the pandemic. Commerce and the fund managers agreed that terms needed to be modified to help the existing businesses in the portfolio to stay afloat. Businesses were offered up to 6-months in payment and interest deferments. As the economy slowly begins to recover, these businesses will need access to capital with flexible terms in order to survive.

The SMWOBA program is an excellent example of how to assist small and minority businesses with access to capital. The program has gained national recognition and was awarded Program of the Year by the Council of Development Finance Agencies⁶. SMWOBA is going to be an important resource for Commerce as demand for capital increases once the COVID pandemic comes to an end. Continued funding of this program is critical to its success and to the success of Maryland's small, and minority businesses.

⁶ Council of Development Finance Agencies is a national association dedicated to the advancement of development finance <https://www.cdfa.net/>