

STATE OF MARYLAND

# Board of Public Works

GOVERNOR • TREASURER • COMPTROLLER

Report to the Legislative Policy Committee  
on the Operations and Effectiveness of the

# Small Business Reserve Program



Treasury Bldg, Room 117  
80 Calvert Street  
Annapolis, Maryland 21401

## Fiscal Year 2016

MARYLAND  
BOARD OF PUBLIC WORKS

Governor    Treasurer    Comptroller

**Sheila McDonald, Esq.**  
*Executive Secretary*

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June 11, 2018

The Honorable Thomas V. Mike Miller, Jr.  
The Honorable Michael E. Busch  
Legislative Policy Committee  
Legislative Services Building, Room 200B  
90 State Circle  
Annapolis, Maryland 21401 - 1991

Dear Mr. President and Mr. Speaker:

As required by State Finance and Procurement Article, §14-505, the Board of Public Works is submitting the FY'16 Small Business Reserve Program Report.

Please feel free to contact me if you have any questions.

Sincerely,



Gabriel Gnall  
Procurement Advisor

CC: The Honorable Lawrence J. Hogan, Jr.  
The Honorable Nancy K. Kopp  
The Honorable Peter Franchot  
Sheila McDonald, Executive Secretary  
Sarah Albert, Legislative Services  
Enoch Pratt Free Library

# **EXECUTIVE SUMMARY**

The Small Business Reserve (SBR) Program aims to increase participation in State procurements by small businesses. Currently, 6,247 vendors are registered as small business enterprises in *eMaryland Marketplace*. Under the Program in Fiscal Year (FY) 2016, 23 designated State agencies were required to structure their procurement procedures to achieve at least 10% of the procurement unit's dollars expended directly with certified small businesses at the prime contract level. In FY 2016 the designated State agencies spent almost 7.7% of their procurement dollars with small businesses.

## **I. SCOPE OF REPORT**

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Every designated agency must submit an annual report to the Board of Public Works concerning that agency's experience with the Small Business Reserve Program in the preceding fiscal year. The Board is tasked with compiling the annual information and submitting a report "on the operation and effectiveness of the entire Small Business Reserve Program" to the Legislative Policy Committee.

## **II. PROGRAM OPERATION**

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The Small Business Reserve Program became effective October 1, 2004. The primary goal of the Program is to facilitate the participation of small businesses in Maryland's procurement system. Procurements that are designated small business reserve are only open to certified small businesses. In FY 2016, each designated State agency was required to structure its procurement procedures to ensure that at least 10% of its procurement dollars were expended directly with certified small businesses at the prime contract level.

The designated State agencies for FY 2016 were:

### ***Cabinet Departments***

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- Business & Economic Development
- Education
- Environment
- General Services
- Health & Mental Hygiene
- Housing & Community Development
- Human Resources
- Information Technology
- Juvenile Services
- Labor, Licensing, & Regulation
- Natural Resources
- Public Safety & Correctional Services
- State Police
- Transportation

### ***Non-Cabinet Agencies***

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- Maryland Port Commission
- Maryland Transportation Authority
- State Retirement
- Maryland Insurance Admin.
- Maryland Stadium Authority
- State Lottery & Gaming Control
- State Treasurer's Office

### ***Universities***

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- University System of Maryland
- Morgan State University

Other State agencies may award contracts to certified small businesses, but only the 23 designated agencies were eligible to restrict a solicitation to participation by only certified small businesses.<sup>1</sup> When an agency restricts a solicitation in that manner, an eligible but uncertified small business may submit a bid/proposal, but that business must be certified before being awarded the contract.<sup>2</sup>

Minority Business Enterprises that meet the size criteria may be certified as small businesses.<sup>3</sup> Nonprofit organizations are not eligible for certification.<sup>4</sup> The law excludes procurements to preference providers such as Maryland Correctional Enterprises, Blind Industries and Services of Maryland, and community services providers and individual with disability owned businesses under the Employment Works Program.<sup>5</sup>

### **III. RECENT CHANGES**

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Effective October 1, 2017, the Small Business Reserve Program has been expanded significantly,<sup>6</sup> following recommendations made by the 2016 Commission to Modernize State Procurement chaired by Lt. Governor Boyd Rutherford.<sup>7</sup> The changes to the Program include:

- Expanding eligibility in the program from 23 designated agencies to all State procurement units.
- Increasing the Small Business Reserve goal from 10% to 15% of all State procurement unit expenditures.
- Limiting the types of expenditures that may be counted towards the Small Business Reserve goal to only expenditures under contracts that resulted from procurements designated as Small Business Reserve procurements. i.e. If a procurement is not given the Small Business Reserve designation, limiting competition to only small businesses, the resulting contract's expenditures may not be counted towards the 15% Small Business Reserve goal, even if the contract is awarded to a certified small business.

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<sup>1</sup> §14-504(a) of the State Finance and Procurement Article

<sup>2</sup> COMAR 21.11.01.06

<sup>3</sup> Section 14-501(b)(1) of the State Finance and Procurement Article

<sup>4</sup> COMAR 21.11.01.01B(1)

<sup>5</sup> Section 14-502(b) of the State Finance and Procurement Article

<sup>6</sup> Chapter 438 (Laws of 2017) revised §§14-501 – 14-505 of the State Finance & Procurement Article

<sup>7</sup> <http://msa.maryland.gov/msa/mdmanual/26excom/defunct/html/29procurem.html>

## **IV. PROGRAM EFFECTIVENESS**

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In Fiscal Year 2016, the Program did not achieve the same level of effectiveness as it did in FY 2015:

- In FY 2016, the percentage of agency procurement dollars going to certified small business enterprises averaged **7.70%**, while 10.6% was achieved in FY 2015.
- This decrease represents a loss of approximately \$116 million in State small business expenditures under the Program from **\$418,746,478 FY 2015 to \$301,751,929 in FY 2016.**
- The Governor's Office of Small, Minority, and Women Business Affairs has cited the transferring of vendor registration data between eMaryland Marketplace and the State's internal financial management system as a major cause of the decline of Program effectiveness in FY 2016. The Governor's Office of Small, Minority, and Women Business Affairs has stated that payments to new certified small business vendors were being under-reported, while payments to vendors that were no longer in the Program have been over-reported for the prior three fiscal years. These issues were corrected during the FY 2016 reporting period by the Governor's Office of Small, Minority, and Women Business Affairs, resulting in the significant decrease in calculated Program effectiveness.
- 6,247 vendors are currently registered in *eMaryland Marketplace* as small business enterprises. This is a significant increase from 3,165 in FY 2015.

## Percentage of Procurement Dollars Spent on Small Business Reserve Program – Fiscal Year 2016

	SBR Participating Agency/Department	SBR Payments	Total Payments	SBR Participation
1	Commerce	\$1,086,682	\$6,487,842	16.75%
2	Education	\$7,366,707	\$99,916,526	7.37%
3	Environment	\$668,650	\$9,631,180	6.94%
4	General Services	\$18,217,871	\$86,070,524	21.17%
5	Health & Mental Hygiene	\$6,411,329	\$242,098,534	2.65%
6	Housing & Community Development	\$3,323,472	\$19,719,884	16.85%
7	Human Resources	\$9,593,585	\$116,367,788	8.24%
8	Information Technology	\$10,137,742	\$49,493,965	20.48%
9	Insurance Administration	\$806,499	\$2,019,073	39.94%
10	Juvenile Services	\$2,317,081	\$77,279,183	3.00%
11	Labor, Licensing & Regulation	\$2,231,744	\$35,544,028	6.28%
12	Lottery	\$1,281,028	\$65,656,608	1.95%
13	Morgan State University	\$2,316,927	\$73,802,343	3.14%
14	Natural Resources	\$3,248,348	\$31,669,038	10.26%
15	Public Safety & Correctional Services	\$31,730,804	\$292,815,498	10.84%
16	Retirement	\$429,419	\$3,565,438	12.04%
17	Stadium Authority	\$6,912,923	\$26,609,256	25.98%
18	State Police	\$5,116,462	\$49,806,968	10.27%
19	<b>Transportation</b> (Includes The Secretary's Office, Maryland Aviation Administration, Maryland Transit Administration, Motor Vehicle Administration and State Highway Administration)	\$73,448,141	\$1,173,277,448	6.26%
20	Maryland Port Commission	\$5,815,569	\$45,486,090	12.79%
21	Maryland Transportation Authority	\$11,701,536	\$321,869,823	3.64%
22	Treasurer's Office	\$555,353	\$3,714,254	14.95%
23	<b>University System of Maryland</b>			
	Bowie State University	\$1,130,215	\$10,773,778	10.49%
	Coppin State University	\$856,329	\$10,198,793	8.40%
	Frostburg State University	\$1,010,737	\$13,352,627	7.57%
	Salisbury State University	\$2,168,654	\$13,598,894	15.95%
	Towson University	\$8,559,669	\$69,028,891	12.40%
	University of Baltimore	\$1,209,171	\$10,287,260	11.75%
	University of MD, Baltimore	\$10,466,271	\$289,044,506	3.62%
	University of MD, Baltimore County	\$7,363,234	\$51,787,804	14.22%
	University of MD, College Park	\$33,952,891	\$526,618,564	6.45%
	University of MD, Eastern Shore	\$1,171,080	\$18,580,683	6.30%
	University of MD, University College	\$29,145,807	\$75,015,939	38.85%
	<b>STATEWIDE TOTAL</b>	<b>\$301,751,930</b>	<b>\$3,921,189,030</b>	<b>7.70%</b>