

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 2015

MARYLAND
BOARD OF PUBLIC WORKS

Governor Treasurer Comptroller

Sheila McDonald, Esq.
Executive Secretary

Gabriel Gnall, Esq.
Procurement Advisor

William Morgante, PWS
Wetlands Administrator

November 9, 2016

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'15 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, 3,721 small businesses are listed as qualified in *eMaryland Marketplace*. Under the Program, 23 designated State agencies must structure their procurement procedures to ensure that at least 10% of procurement dollars are expended directly with certified small businesses at the prime contract level. In FY 2015 the designated State agencies spent almost 11% of their procurement dollars on small businesses.

I. SCOPE OF REPORT

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

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. Each designated State agency must structure its procurement procedures to ensure that at least 10% of its procurement dollars are expended directly with certified small businesses at the prime contract level.

The designated State agencies are:

Cabinet Departments

- 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

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

Universities

- University System of Maryland
- Morgan State University

Other State agencies may award contracts to certified small businesses, but only the 23 designated agencies may restrict a solicitation to participation by certified small businesses.¹ 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.²

Minority Business Enterprises that meet the size criteria may be certified as small businesses.³ Nonprofit organizations are not eligible for certification.⁴ The law excludes procurements to preference providers such as Maryland Correctional Enterprises, Blind Industries and Services of Maryland, and Community Service Providers.⁵

III. RECENT DEVELOPMENTS

A. Oversight by the Governor's Office of Minority Affairs

Chapter 119, Laws of 2016, effective July 1, 2016, designated the Governor's Office of Minority Affairs (GOMA) to replace the Department of General Services as the agency responsible for oversight of the Small Business Reserve Program, including adopting regulations, establishing procedures, collecting data, ensuring agency compliance, and providing training on the program.

B. Repeal of Termination Date

Chapter 119, Laws of 2016, effective July 1, 2016, repealed the termination date of the Small Business Reserve Program (previously set to terminate on September 30, 2016).

C. Commission to Modernize State Procurement

One of the enumerated duties of the Commission to Modernize State Procurement⁶ is to propose recommendations to expand the Small Business Reserve Program to all State agencies and units, beyond the current 23 designated units. The Commission's recommendations are due to the Governor December 1, 2016.

¹ §14-504(a) of the State Finance and Procurement Article

² COMAR 21.11.01.06

³ Section 14-501(c)(1) of the State Finance and Procurement Article

⁴ COMAR 21.11.01.01B(1)

⁵ Section 14-502(b) of the State Finance and Procurement Article

⁶ Established February 10, 2016 via Executive Order 01.01.2016.05

IV. PROGRAM EFFECTIVENESS

- In FY 2015, the percentage of agency procurement dollars going to certified small business enterprises averaged 10.56%.
- This decrease represents a loss of \$23 million in State small business spending: \$441,592,601 FY 2014 to \$418,746,478 FY 2015.
- 3,721 entities are currently listed as certified Small Business Enterprises – down from 6,183 in FY 2014. This is a significant drop, after updating of the vendor designations in *eMaryland Marketplace*.

V. RECOMMENDATIONS FOR PROGRAM IMPROVEMENT

Overall, designated State agencies exceeded the Program goal of 10% and spent almost 11% of their procurement dollars towards small businesses. While this is a positive sign, the vast majority of these small business expenditures are incidental to non-SBR-designated procurements. In other words, designated State agencies are awarding contracts to small businesses, but not necessarily because procurements are designated as SBR-only procurements; such procurement awards occurring after the small business has had to compete against larger businesses. We think the agencies in the SBR program should designate more procurements as Small Business Reserve procurements when feasible, and all agencies should augment their outreach efforts by targeting small businesses that do not typically receive state awards, such as information technology companies and financial services companies.

Percentage of Procurement Dollars Spent on Small Business Reserve Program – Fiscal Year 2015

	SBR Participating Agency/Department	SBR Payments	Total Payments	SBR Participation
1	Business & Economic Development	\$4,575,329	\$6,927,831	66.04%
2	Education	\$14,751,363	\$166,651,439	8.85%
3	Environment	\$2,305,923	\$14,167,559	16.28%
4	General Services	\$21,039,439	\$88,148,163	23.87%
5	Health & Mental Hygiene	\$18,063,748	\$376,245,719	4.80%
6	Housing & Community Development	\$3,893,343	\$17,626,894	22.09%
7	Human Resources	\$14,469,118	\$138,566,243	10.44%
8	Information Technology	\$3,654,093	\$30,199,837	12.10%
9	Insurance Administration	\$187,235	\$1,319,651	14.19%
10	Juvenile Services	\$7,590,382	\$120,033,136	6.32%
11	Labor, Licensing & Regulation	\$3,392,824	\$24,741,088	13.71%
12	Lottery	\$10,168,471	\$93,806,141	10.84%
13	Morgan State University	\$5,053,411	\$65,482,598	7.72%
14	Natural Resources	\$2,630,824	\$11,270,082	23.34%
15	Public Safety & Correctional Services	\$14,993,447	\$284,688,363	5.27%
16	Retirement	\$769,869	\$3,648,009	21.10%
17	Stadium Authority	\$3,621,913	\$25,748,037	14.07%
18	State Police	\$5,431,457	\$41,807,677	12.99%
19	Transportation (Includes The Secretary's Office, Maryland Aviation Administration, Maryland Transit Administration, Motor Vehicle Administration and State Highway Administration)	\$149,693,934	\$1,169,702,372	12.80%
20	Maryland Port Commission	\$8,961,901	\$57,855,030	15.49%
21	Maryland Transportation Authority	\$20,419,947	\$366,218,383	5.58%
22	Treasurer's Office	\$97,389	\$3,505,699	2.78%
23	University System of Maryland			
	Bowie State University	\$2,934,854	\$13,663,178	21.48%
	Coppin State University	\$3,419,306	\$17,991,858	19.00%
	Frostburg State University	\$1,332,919	\$12,931,756	10.31%
	Salisbury State University	\$1,310,400	\$12,946,984	10.12%
	Towson University	\$6,985,540	\$64,129,845	10.89%
	University of Baltimore	\$1,352,910	\$10,138,263	13.34%
	University of MD, Baltimore	\$8,624,233	\$225,555,687	3.82%
	University of MD, Baltimore County	\$6,079,630	\$51,605,057	11.78%
	University of MD, College Park	\$42,961,121	\$367,787,519	11.68%
	University of MD, Eastern Shore	\$1,401,355	\$10,993,374	12.75%
	University of MD, University College	\$26,578,850	\$69,938,011	38.00%
	STATEWIDE TOTAL	\$418,746,478	\$3,966,041,483	10.56%