

**An Economic and Fiscal Analysis of MSBDFFA's
Portfolio of Firms on the Maryland Economy**

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Impact of MSBDFA's Portfolio of Firms on the Maryland Economy

1.0 Executive Summary

The Maryland Small Business Development Financing Authority (MSBDFA) is a financing program offered by the Maryland Department of Business and Economic Development. In 1994, the MSBDFA conducted an economic impact analysis to assess the economic and fiscal impacts of its closed-loan portfolio during the 1988-93 period, and further conducted a 1999 update that provided analysis for the 1993-1997 period. This 2005 update provides an analysis of more recent data for the 1995-2004 period. The projections are based on data provided by Meridian Management Group, Inc., a private organization which serves as the Program Manager of MSBDFA. The data includes the cumulative operations and change in operating performance over the ten-year period. Similar to the earlier report, the economic and fiscal impacts of the MSBDFA portfolio are based on sales, income, and employment of annual operations in Maryland. Unlike the earlier study, however, this report does not consider other revenue or expenses that MSBDFA incurred as a result of its own operations. In addition, this report does not present any information on the performance of the loans that MSBDFA provided to companies. Thus, the economic and fiscal impacts focus solely on the contribution of MSBDFA's client firms to the Maryland economy.

Gross Cumulative Economic and Fiscal Impacts

Estimates of the economic and fiscal impacts resulting from the cumulative annual operations of the MSBDFA firms--based on the sum of sales and income for the period 1995-2004 are included in this report. These estimates capture the overall contribution to the Maryland economy over the 10-year period of analysis. In particular, the direct impact of the cumulative operations includes \$2.2 billion in sales, \$789.8 million in income and 3,224 full-time equivalent jobs. The secondary impact shows \$1.6 billion in sales, \$460.1 million in income and 2,044 full-time equivalent jobs. Together, the total cumulative impact of the client companies is an estimated \$3.8 billion in sales, \$1.3 billion in income and 5,268 full-time equivalent jobs. The direct tax revenues resulting from the employees of the client companies consist of selected state tax receipts of \$73.4 million, which includes \$35.9 million in state retail sales tax and \$37.5 million in state personal income tax, and local personal income surtax receipts of \$23.5 million. The sum of the direct and secondary tax revenues generated by the employees of the client companies and their suppliers are estimated to be \$121.4 million in selected state tax receipts, consisting of \$62.0 million in state retail sales tax and \$59.4 million in state personal income tax, and \$37.2 million in local personal income surtax receipts.

Net Economic and Fiscal Impacts

The MSBDFA portfolio of businesses has also changed over the 1995-2004 period. In particular, total sales have increased by about \$347.9 million, income rose by \$138.0 million, and employment climbed by 2,479 jobs. This change in the economic activity of MSBDFA firms translates into the net direct impact on the Maryland economy. That is, the net direct impact includes \$347.9 million in additional sales, \$138.0 million in additional income and 2,479 additional full-time equivalent jobs. The secondary impact that arises from this expansion includes \$251.2 million in sales, \$80.4 million in income and 1,572 full-time equivalent jobs. Taken together, the total net impact from the MSBDFA portfolio of businesses amounts to \$599.1 million in sales, \$218.4 million in income and 4,051 full-time equivalent jobs. The fiscal impact associated with the net additional income and employment accounts for direct and indirect tax receipts have changed as well over the 1995-2004 period. The net direct tax revenue consists of selected state tax receipts of \$26.5 million, which includes \$20.0 million in state retail sales tax and \$6.6 million in state personal income tax, and local personal income surtax receipts of \$4.1 million. The indirect tax revenue shows \$18.3 million in selected state tax receipts, with \$14.5 million in state retail sales tax and \$3.8 million in state personal income tax, and \$2.4 million in local personal income surtax receipts. The combined direct and secondary fiscal estimates yield \$44.9 million in selected state tax receipts, consisting of \$34.5 million in state retail sales tax and \$10.4 million in state personal income tax, and \$6.5 million in local personal income surtax receipts.

2.0 Introduction

This study estimates the economic and fiscal impacts of the Maryland Small Business Development Financing Authority's (MSBDFA) portfolio of companies on the economy of Maryland. The economic impact estimates are obtained using the Maryland Economic Impact Model, based on the nationally known IMPLAN Input-Output Modeling System of the University of Minnesota IMPLAN Group. This input-output model accounts for the inter-industry flow of goods and services within Maryland and with the external economy. The contribution of the MSBDFA businesses on the economy of Maryland can be measured by the sum of direct, indirect, and induced economic effects that arise from the operation of the companies. The direct impact refers to the initial first round spending associated with the output of the companies in the MSBDFA portfolio. The indirect effects arise as local vendors increase their spending on materials, goods and services, and employees, in order to meet their higher demand for output brought about by the operation of the MSBDFA firms. Induced expenditures result from the increase in consumer spending by local resident employees of the companies in the MSBDFA portfolio and the local businesses supplying goods and services in Maryland. These secondary benefits arising from the indirect and induced impacts indicate the degree to which the client companies and their employees transact with local business establishments in Maryland. The fiscal impacts account for selected tax revenues

generated from the employees of the client companies and the employees of their suppliers. These tax revenues include state retail sales and personal income tax receipts at the state and local levels. Estimates of business tax liabilities are not included because these transactions occur across a variety of industries and can vary significantly among industries, as well as among firms within an industry. This makes it difficult to estimate an average tax rate for business enterprises.

2.1 Characteristics of the MSBDFA Companies

The MSBDFA portfolio can be summarized in terms of the cumulative operating measures of the various businesses. Table 1 describes the portfolio in terms of the cumulative annual sales, cumulative annual income, and average employment for the 10-year period from 1995 to 2004, using the North American Industry Classification System (NAICS) at the 2-digit level of detail. The MSBDFA companies generated \$2.2 billion in sales, \$789.8 million in income and 3,224 jobs¹. While the cumulative measure captures the gross impact of the client businesses, it is useful to consider how MSBDFA's portfolio has changed over time. That is, the significance of MSBDFA's client companies can also be characterized in terms of the difference in sales, income, and employment between 1995 and 2004 (Table 2). In particular, for the 1995-2004 period, total sales for all businesses increased by about \$347.9 million, income rose by \$138.0 million, and employment climbed by 2,479 jobs. These changes take into account the entry and exit of companies in the MSBDFA portfolio. The expansion in sales, income, and employment since 1995 has also been accompanied by changes in the allocation of the MSBDFA portfolio, as measured by sales, income, and employment. Tables 3-5 illustrate the share of sales, income, and employment by 2-digit NAICS codes. In 1995, the MSBDFA portfolio was relatively concentrated, with 48.4 percent of sales, 41.8 percent of income being generated by the information sector and with 30.3 percent of employment being generated by the Administration and Support, Waste Management and Remediation Services sector. Construction also held a large part of the portfolio in 1995 with 33.6 percent of sales, 28.9 percent of income and 14.0 percent of employment being generated by this sector. By 2004, the portfolio exhibited somewhat less concentration, with the Professional, Scientific and Technical Services sector now accounting for 24.1 percent of sales, 30.7 percent of income and 26.9 percent of employment being generated in this sector and with the information and construction sectors dropping moderately.

¹ The employment figure is based on the average number of jobs that a company maintained during its period of operation. The average number of employees per company is then summed up to yield the industry average.

2.2 Economic and Fiscal Impacts

2.2.1 Gross Cumulative Sales and Income, and Average Employment

We provide estimates of the economic and fiscal impacts resulting from the cumulative annual operations of the MSBDFAs firms based on sales, income, and average employment over the 10-year period, 1995-2004. Table 6 depicts the direct impact of the portfolio of MSBDFAs firms, which includes \$2.2 billion in sales, \$789.8 million in income and 3,224 full-time equivalent jobs. The secondary impact shows \$1.6 billion in sales, \$460 million in income and 2,044 full-time equivalent jobs. Together, the total impact from the portfolio of companies produces \$3.8 billion in sales, \$1.3 billion in income and 5,268 full-time equivalent jobs. The fiscal impact associated with the operations of the MSBDFAs companies is also shown in Table 6. The direct tax revenue consists of selected state tax receipts of \$73.4 million, including \$35.9 million in state retail sales tax and \$37.5 million in state personal income tax², with local personal income surtax receipts of \$23.5 million³. The indirect tax revenue yields \$47.9 million in selected state tax receipts, with \$26.1 in state retail sales tax and \$21.9 million in state personal income tax, and \$13.7 million in local personal income surtax receipts. The sum of the direct and secondary fiscal estimates generates \$121.4 million in selected state tax receipts, consisting of \$62.0 million in state retail sales tax and \$59.4 million in state personal income tax, with \$37.2 million in local personal income surtax receipts.

2.2.2 Net Additional Sales, Income, and Employment

An estimate of the net economic and fiscal impacts resulting from the additional sales, income, and employment generated by the MSBDFAs portfolio of companies for the 1995-2004 period was also made. The contribution of the businesses was assessed by examining the change in each component. This change in the economic activity of MSBDFAs client businesses translates into the net direct impact on the Maryland economy over the 10-year period. According to data obtained from the MSBDFAs Program Manager, the net direct impact of MSBDFAs firms includes \$347.9 million in additional sales, \$138.0 million in additional income and 2,479 additional full-time equivalent jobs (Table 7). The secondary impact includes \$251.2 million in sales, \$80.4 million in income and 1,572 full-time equivalent jobs. Taken together, the total impact from the MSBDFAs portfolio of firms amounts to \$599.1 million in sales, \$218.4 million

² The State of Maryland personal income tax revenues were calculated using the Maryland personal income tax rate of 4.75%. RESI applied this tax rate to the labor income generated in Maryland to estimate the total Maryland personal income tax revenues the state would receive.

³ The local personal income tax revenues were calculated by first calculating the weighted average of all 24 jurisdictional income tax rates in order to achieve one weighted local income tax rate. This weighted local income tax rate of 2.98% was then applied to the labor income generated throughout the state of Maryland to estimate the total personal income tax revenues that would be collected on the local level.

in income and 4,051 full-time equivalent jobs. The fiscal impacts associated with the additional income and employment accounts for the direct and indirect tax receipts reported in Table 6. The net direct tax revenue consists of selected state tax receipts of \$26.5 million, which includes \$20.0 million in state retail sales tax and \$6.6 million in state personal income tax, and local personal income surtax receipts of \$4.1 million. The indirect tax revenue shows \$18.3 million in selected state tax receipts, with \$14.5 million in state retail sales tax and \$3.8 million in state personal income tax, and \$2.4 million in local personal income surtax receipts. The combined direct and secondary fiscal estimates yield \$44.9 million in selected state tax receipts, consisting of \$34.5 million in state retail sales tax and \$10.4 million in state personal income tax, and \$6.5 million in local personal income surtax receipts.

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3.0 Appendix A: Detailed Impacts

**Table A: Gross Cumulative Sales, Cumulative Income, and Average Jobs
1995 to 2004
(2004 Dollars)**

Industry	Sales	Income	Jobs⁴
Agriculture	\$0	\$0	0
Mining	\$0	\$0	0
Utilities	\$0	\$0	0
Construction	\$403,385,869	\$120,150,157	327
Manufacturing	\$29,507,874	\$6,319,145	64
Wholesale Trade	\$6,819,770	\$2,070,467	56
Transportation & Warehousing	\$19,079,747	\$4,931,987	64
Retail Trade	\$294,076,706	\$63,470,564	318
Information	\$693,011,562	\$181,824,142	426
Finance & Insurance	\$9,815,146	\$15,200,508	50
Real Estate & Rental & Leasing	\$175,496	\$98,612	2
Professional, Scientific & Technical Services	\$431,618,753	\$217,666,078	557
Mgmt. of Companies & Enterprises	\$0	\$0	0
Admin. & Support & Waste Mgmt. & Remediation Svcs.	\$270,113,341	\$167,361,703	1,268
Educational Services	\$73,121	\$84,485	3
Health Care & Social Services	\$3,737,660	\$2,437,790	9
Arts, Entertainment & Recreation	\$0	\$0	0
Accommodation & Food Services	\$16,233,955	\$6,439,377	52
Other Services	\$3,321,750	\$1,722,859	29
Government	\$0	\$0	0
<i>Total</i>	<i>\$2,180,970,749</i>	<i>\$789,777,874</i>	<i>3,224</i>

Source: Meridian Management Group, Inc.

⁴ The employment figures are averaged over the years a company was in operation during the 1995-2004 period. The average number of employees per company is then summed up to compute the industry average.

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**Table B: Change in Sales, Income and Jobs
1995 to 2004
(2004 Dollars)**

Industry	Sales	Income	Jobs
Agriculture	\$0	\$0	0
Mining	\$0	\$0	0
Utilities	\$0	\$0	0
Construction	\$26,833,485	\$11,958,066	77
Manufacturing	\$931,251	\$342,667	3
Wholesale Trade	\$0	\$0	0
Transportation & Warehousing	\$6,686,446	\$1,492,876	57
Retail Trade	\$36,412,268	\$8,149,730	27
Information	\$126,164,994	\$33,431,893	538
Finance & Insurance	\$5,769,679	\$4,713,587	67
Real Estate & Rental & Leasing	\$0	\$0	0
Professional, Scientific & Technical Services	\$97,642,734	\$47,304,008	914
Mgmt. of Companies & Enterprises	\$0	\$0	0
Admin. & Support & Waste Mgmt. & Remediation Svcs.	\$44,654,079	\$29,448,955	736
Educational Services	\$0	\$0	0
Health Care & Social Services	\$0	\$0	0
Arts, Entertainment & Recreation	\$0	\$0	0
Accommodation & Food Services	\$2,136,050	\$835,271	60
Other Services	\$644,372	\$319,210	0
Government	\$0	\$0	0
<i>Total</i>	<i>\$347,875,357</i>	<i>\$137,996,262</i>	<i>2,479</i>

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**Table C: Distribution of Sales by Industry (Percent)
1995-2004**

Industry	1995	2004
Agriculture	0.0%	0.0%
Mining	0.0%	0.0%
Utilities	0.0%	0.0%
Construction	33.6%	12.2%
Manufacturing	3.0%	0.7%
Wholesale Trade	0.0%	0.0%
Transportation & Warehousing	0.0%	1.6%
Retail Trade	1.4%	8.9%
Information	48.4%	38.4%
Finance & Insurance	0.0%	1.4%
Real Estate & Rental & Leasing	0.1%	0.0%
Professional, Scientific & Technical Services	5.4%	24.1%
Mgmt. of Companies & Enterprises	0.0%	0.0%
Admin.& Support & Waste Mgmt. & Remediation Svcs.	7.4%	11.9%
Educational Services	0.0%	0.0%
Health Care & Social Services	0.5%	0.1%
Arts, Entertainment & Recreation	0.0%	0.0%
Accommodation & Food Services	0.0%	0.5%
Other Services	0.2%	0.2%
Government	0.0%	0.0%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

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**Table D: Distribution of Income by Industry (Percent)
1995-2004**

Industry	1995	2004
Agriculture	0.0%	0.0%
Mining	0.0%	0.0%
Utilities	0.0%	0.0%
Construction	28.9%	11.1%
Manufacturing	2.6%	0.5%
Wholesale Trade	0.0%	0.0%
Transportation & Warehousing	0.0%	1.0%
Retail Trade	1.6%	5.4%
Information	41.8%	26.4%
Finance & Insurance	0.0%	3.0%
Real Estate & Rental & Leasing	0.2%	0.0%
Professional, Scientific & Technical Services	4.3%	30.7%
Mgmt. of Companies & Enterprises	0.0%	0.0%
Admin.& Support & Waste Mgmt. & Remediation Svcs.	18.9%	21.1%
Educational Services	0.0%	0.0%
Health Care & Social Services	1.2%	0.1%
Arts, Entertainment & Recreation	0.0%	0.0%
Accommodation & Food Services	0.0%	0.5%
Other Services	0.5%	0.3%
Government	0.0%	0.0%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

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**Table E: Distribution of Employment by Industry (Percent)
1995-2004**

Industry	1995	2004
Agriculture	0.0%	0.0%
Mining	0.0%	0.0%
Utilities	0.0%	0.0%
Construction	14.0%	6.7%
Manufacturing	4.8%	1.7%
Wholesale Trade	0.0%	0.0%
Transportation & Warehousing	0.0%	1.5%
Retail Trade	22.0%	8.0%
Information	20.5%	21.3%
Finance & Insurance	0.0%	1.8%
Real Estate & Rental & Leasing	0.2%	0.0%
Professional, Scientific & Technical Services	6.8%	26.9%
Mgmt. of Companies & Enterprises	0.0%	0.0%
Admin.& Support & Waste Mgmt. & Remediation Svcs.	30.3%	29.9%
Educational Services	0.0%	0.0%
Health Care & Social Services	0.3%	0.1%
Arts, Entertainment & Recreation	0.0%	0.0%
Accommodation & Food Services	0.0%	1.6%
Other Services	1.1%	0.4%
Government	0.0%	0.0%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

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**Table F: Economic and Fiscal Impact - Gross Cumulative Sales, Cumulative Income and Average Employment
(2004 Dollars)**

Category	Direct Impact	Secondary Impact	Total Impact
Gross Sales	\$2,180,970,749	\$1,574,744,939	\$3,755,715,688
Income	\$789,777,874	\$460,147,521	\$1,249,925,395
Employment (Full-time Equivalent Jobs)	3,224	2,044	5,268
State Tax Receipts	\$73,434,448	\$47,927,395	\$121,361,843
State Retail Sales Tax	\$35,919,999	\$26,070,388	\$61,990,387
State Personal Income Tax	\$37,514,449	\$21,857,007	\$59,371,456
Local Personal Income Surtax Receipts	\$23,510,231	\$13,697,743	\$37,207,975

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**Table G: Economic and Fiscal Impact - Net Additional Sales, Income and Employment
(2004 Dollars)**

Category	Direct Impact	Secondary Impact	Total Impact
Gross Sales	\$347,875,357	\$251,179,415	\$599,054,772
Income	\$137,996,262	\$80,400,629	\$218,396,892
Employment (Full-time Equivalent Jobs)	2,479	1,572	4,051
State Tax Receipts	\$26,536,547	\$18,321,572	\$44,858,120
State Retail Sales Tax	\$19,981,725	\$14,502,543	\$34,484,267
State Personal Income Tax	\$6,554,822	\$3,819,030	\$10,373,852
Local Personal Income Surtax Receipts	\$4,107,894	\$2,393,379	\$6,501,273