

December 1, 2005

Governor Robert L. Ehrlich, Jr.
State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Ehrlich:

On behalf of the Task Force on Assistance to Disabled Veterans Establishing Small Businesses, I am pleased to submit the Task Force Report. The 14-member Task Force was established in the summer of 2005 in accordance with Senate Bill 319 and pursuant to Chapter 299 of the Laws of Maryland. It was charged to perform a detailed analysis of the existing programs and make recommendations regarding assisting disabled veterans establishing small businesses. SB 319 directed the Task Force to seek answers to questions that are detailed in the report.

The report outlines the work of the Task Force during 2005 and identifies recommendations regarding policy options and the impact of those recommendations. The recommendations, if implemented, will enhance significantly Maryland's commitment to veterans and their economic value and contributions to the State of Maryland. The Task Force firmly believes passage of a legislation instituting a program assisting disabled veterans establishing small businesses now, will significantly increase the likelihood of veterans deciding to retire in Maryland rather than surrounding states, thus adding highly skilled and well paid workers to our state economy. It is the recommendation of the Task Force that action be taken on these recommendations during the 2006 Legislative Session.

I wish to express my deep appreciation to the Task Force members for the time and effort that they devoted to the work of the Task Force, as well as to the staff of the Maryland Department of Veterans Affairs and the Board of Public Works, who provided outstanding support.

It has been an honor and a pleasure to participate in this most important endeavor. I look forward to continuing our work to ensure that veterans choose Maryland as home after retirement.

Sincerely,

Robert C. Sharps
Chairman
SB 319 Task Force

STATE OF MARYLAND

**REPORT TO THE GOVERNOR AND
THE GENERAL ASSEMBLY**

ON

**ASSISTANCE TO DISABLED VETERANS ESTABLISHING
SMALL BUSINESSES**

AS REQUIRED BY CHAPTER 299, LAWS OF 2005

DECEMBER 1, 2005

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**TASK FORCE ON
ASSISTANCE TO DISABLED VETERANS ESTABLISHING SMALL BUSINESSES**

MEMBERSHIP ROSTER

JULY 1, 2005 - DECEMBER 31, 2005

Robert C. Sharps	Chairman
Senator John Astle	Member, General Assembly
Delegate Brian Feldman	Member, General Assembly
Laurie Atherholt	Secretary of Veterans Affairs <i>designee</i>
Ellis Goodman	Secretary of Disabilities <i>designee</i>
Alex Ilczuk	Maryland Veterans Commission <i>representative</i>
Harry Yaukey	Maryland Veterans Commission <i>representative</i>
Patt Parker	Business and Economic Development <i>representative</i>
Catherine Svoboda	Minority Business Enterprise Program <i>representative</i>
Robert Sprecher	American Legion <i>representative</i>
Judith Hall	Disabled American Veterans <i>representative</i>
Teresa Lewis	General Public <i>representative</i>
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TASK FORCE ON ASSISTANCE TO DISABLED VETERANS ESTABLISHING SMALL BUSINESSES

EXECUTIVE SUMMARY

Approximately 463,000 veterans reside in Maryland; approximately 53,000 of those are service-disabled veterans. The population of service-disabled veterans in Maryland is expected to increase appreciably in future years. Although many service-disabled veteran-owned *businesses* (SDVOBs) have registered in various federal databases, there is no reliable, comprehensive database that captures the number of SDVOBs in the State.

State resources are available to individuals seeking to establish a small or minority-owned business, but none specifically address the unique challenges a service-disabled veteran faces in establishing a business.

The Task Force proposes bifurcated responsibility for implementing an initiative to assist disabled veterans establishing small businesses. The responsibilities should be shared between the Maryland Department of Veterans Affairs and the Governor's Office of Business Advocacy and Small Business Assistance (GOBA). Since the Maryland Department of Veterans Affairs is experienced in connecting with Maryland's veterans, the Task Force recommends Veteran Affairs remain the State agency responsible for outreach to service-disabled veterans. GOBA serves small and minority businesses, directing them to appropriate resources and offering advice on everything from permits and licensing requirements to creating a business plan. GOBA is equipped to serve as a guide to service-disabled veterans on business matters. The Task Force believes this approach will best leverage Maryland's diverse resources to ensure service-disabled veterans receive the assistance they need.

Finally, the Task Force recommends that the State:

- (1) implement a tracking system for service-disabled veteran-owned businesses in Maryland;
- (2) establish within its existing procurement programs accommodations designed specifically to assist service-disabled veteran-owned businesses in Maryland; and
- (3) establish a training program for service-disabled veterans with an emphasis on business development and government procurement.

I. Background and Scope of the Report

In 2003, a federal program was created to assist small businesses owned by service-disabled veterans. The Veterans Benefits Act of 2003 (Public Law 108-183) permits contracting officers to restrict competition to small businesses owned and controlled by service-disabled veterans, if the contracting officer has a reasonable expectation that at least two service-disabled veteran-owned small businesses will submit offers and that award can be made at a fair market price. In addition, this law authorizes sole source awards to service-disabled veteran-owned small businesses under certain conditions.

In 2004, President Bush signed Executive Order 13360 which establishes a federal contracting goal of not less than 3% for participation by service-disabled veteran-owned businesses.

Seeking to provide similar opportunities on the State level, legislation was introduced in the 2005 session of the General Assembly that would have established a program mandating inclusion of service-disabled veteran-owned businesses in State procurement goals.¹ The Bill was based on the federal program. The General Assembly, determining that the issue merited further study, did not enact the procurement program, but instead created the Task Force on Assistance to Disabled Veterans Establishing Small Businesses.²

The Task Force, comprising fourteen members, met during the Fall of 2005. Its deliberations resulted in this Report which responds to the General Assembly's inquiries and makes recommendations for assisting disabled veterans establishing small businesses.

Specifically, the Task Force was charged with answering three inquiries:

- Identify the number of disabled State veterans who would benefit from State-awarded contracts for newly-established small businesses.
- Identify existing programs, services, laws, and regulations that best address the issue of assisting disabled veterans establishing small businesses.

¹ House Bill 232/Senate Bill 319 (General Assembly 2005)

² Chapter 299, Laws of 2005

- Recommend designating either DBED or the Department of Veterans Affairs as the State agency to implement an initiative to assist disabled veterans establishing small businesses.

II. Inquiry One

Identify the number of disabled State veterans who would benefit from State-awarded contracts for newly established small businesses.

Disabled Veteran Definition: In order to determine the number of disabled State veterans who might benefit from State-awarded contracts for newly-established small business, the Task Force had to determine the most suitable definition of what constitutes a disabled veteran because the definition of “disability” varies across State and federal law. The Task Force considered the following definition of “disabled veteran” during its deliberations:

An individual who has served in one or more of the uniformed services and has been certified either by the service or the U.S. Department of Veterans Affairs as having a service-connected disability regardless of the disability rating.³

State Information: The U.S. Department of Veterans Affairs maintains a database of veterans and service-disabled veterans. There were 53,772 disabled veterans in Maryland in 2004.⁴ The Department does not have information on veteran-owned businesses.

Federal Information: The federal government maintains three separate databases that include statistics on service-disabled veteran-owned businesses.

1. The Central Contractor Registration is a nationwide federal government depository of all businesses seeking federal contracts.
2. The Veterans Corporation’s Database is a collection of veteran-owned businesses including SDVOBs.
3. The Association for Service Disabled Veterans Database is a compilation of SDVOBs certified to participate in the federal procurement program.

As of September 2005, approximately 2,000 service-disabled veteran-owned small businesses in Maryland have registered in at least one of these federal databases.

No database specifically captures all service-disabled veteran-owned small businesses.

³ The definition is consistent with the definition found in 38 USC 101.

⁴ Exhibit 1 – 2004 US Department of Veterans Affairs Census Numbers

III. Inquiry Two

Identify existing programs, services, laws, and regulations that best address the issue of assisting disabled veterans establishing small businesses.

Although the State offers comprehensive resources to assist residents in establishing small businesses, few are earmarked specifically for Maryland's disabled veterans. The following list includes State and nonprofit resources that generally assist small and establishing businesses. The list is divided into three categories: a) general small business assistance; b) government procurement opportunities assistance; and c) financing assistance.

A. *General Small Business Assistance*

- **Maryland Small Business Development Center Network**
<http://www.mdsbdc.umd.edu>

The Small Business Development Center (SBDC) provides small and emerging businesses with training, confidential business counseling, and management assistance. Maryland maintains a network of 15 SBDC satellite offices in four regions, with headquarters in College Park. Partners are the U.S. Small Business Administration, the University of Maryland Center For Applied Policy Studies, and the Maryland Department of Business and Economic Development.

- **Governor's Office of Business Advocacy and Small Business Assistance (GOBA) within the DBED**
www.choosemaryland.org/business/small

The Governor's Office of Business Advocacy and Small Business Assistance (GOBA) offers a coordinated approach to guide, stimulate, and promote the development of small businesses in the State. The goal is to connect small and minority-owned businesses to the appropriate resources, provide information, and offer assistance with everything from permits and licensing requirements to creating a business plan. GOBA created the *Maryland Small Business Resource Guide* to identify State and federal assistance to meet the needs of Maryland's small businesses. James McLean, Executive Director, 410-767-0545.

- **Department of Business and Economic Development**
www.choosemaryland.org/business/small

DBED has regional offices that assist small businesses in Baltimore, the Washington D.C. metropolitan area, Southern Maryland, Western Maryland, and the Eastern Shore.

- **Women Entrepreneurs of Baltimore, Inc. (WEB)**
http://www.webinc.org

Women Entrepreneurs of Baltimore, Inc. is a nonprofit organization that provides entrepreneurial training, technical assistance, and follow-up services for micro business start-up and development in the Baltimore metropolitan area.

- **Services Corps of Retired Executives (SCORE)**

SCORE is a 13,000-member volunteer non-profit organization sponsored by the U.S. Small Business Administration. SCORE volunteers help prospective and established small business owners and managers identify problems, determine the cause and find solutions.

- **U.S. Small Business Administration**
www.sba.gov

Veterans Business Development Officer in Maryland

The U.S. Small Business Administration Veterans Business Development Officer in Baltimore is a resource available to assist veterans in establishing small businesses.

B. *State Procurement Programs*

Several State procurement programs are designed to assist small, minority, and women-owned businesses in Maryland, but none is dedicated exclusively to veteran-owned businesses. In fiscal year 2005, State payments to certified small businesses under all procurements methods exceeded \$39 million.⁵

- **Small Business Reserve Program**

The Reserve Program is a three-year pilot program that became effective in October 2004. In this program, 22 designated State agencies must procure at least 10% of their total dollar value of goods, supplies, services, maintenance, construction, construction-related services, and architectural and engineering services from small businesses. Unlike the Minority Business Enterprise (MBE) Program, the Reserve Program is mandatory, not a goal: the 22 agencies must meet the 10% requirement.

⁵ The FY 05 total does not include payments by the University System of Maryland

The Reserve Program is a self-certification process; small businesses register through a Department of General Services web site and attest that the information they are submitting is accurate. In order to qualify as a small business under the Program, the following criteria must be met:

- Wholesale operations did not employ more than 50 persons, and gross sales did not exceed an average of \$2,000,000 in most recently completed three fiscal years;
- Retail operations did not employ more than 25 persons, and gross sales did not exceed an average of \$2,000,000 in most recently completed three fiscal years;
- Manufacturing operations did not employ more than 100 persons, and gross sales did not exceed an average of \$2,000,000 in most recently completed three fiscal years;
- Service operations did not employ more than 100 persons, and gross sales did not exceed an average of \$2,000,000 in most recently completed three fiscal years;
- Construction operations did not employ more than 50 persons, and gross sales did not exceed an average of \$7,000,000 in most recently completed three fiscal years.

See State Finance and Procurement Article, §§ 14-501 - 14-505, Annotated Code of Maryland; COMAR 21.11.01.01-.04, .06; Board of Public Works Advisory 2005-1

➤ **Small Business Preference Program**

The Preference Program for small businesses is distinct from the Reserve Program. Only the Department of General Services and the Department of Transportation are authorized by law to offer a price preference under this Program. When one of those departments designates procurement for the small business preference, the award is made to the small business that submits the lowest responsive and responsible bid price, if the bid does not exceed by 5% the lowest responsive and responsible bid received from an uncertified bidder.

See State Finance and Procurement Article, §§ 14-201 - 14-208, Annotated Code of Maryland; COMAR 21.11.01.01-.03, .05.

➤ **Minority Business Enterprise Program**

Individuals with disabilities, including some service-disabled veterans, may be certified as Minority Business Enterprises. However, the standards for such certification are high. The MBE law requires:

- (1) the disability substantially limits one or more major life activity;

- (2) the community generally regards the individual as having such a disability; and
- (3) the disability substantially limits his or her ability to engage in competitive business.⁶

Only ten businesses are currently certified as MBEs in the *disability* category.⁷

The law also establishes a personal net worth ceiling of \$1.5 million. Under the State MBE Program, disabled persons with a personal net worth exceeding \$1.5 million do not qualify as MBEs regardless of their disability. The State certifies MBEs (in contrast to the self-certification process for the Small Business Reserve Program).

See State Finance and Procurement Article, §§ 14-301 - 14-305; COMAR 21.11.03; Board of Public Works Advisory 2001-1

In fiscal year 2004, State payments to certified minority business enterprises exceeded \$334 million.⁸

C. *Financing New Businesses*

Maryland has several programs that extend financial assistance to businesses; however, there is only one program that directly finances small businesses:

➤ **Maryland Small Business Development Financing Authority (MSBDFA)**

MSBDFA, a DBED program, provides financing for small businesses and businesses owned by socially and economically disadvantaged persons. Of particular interest to small businesses interested in government contracts, the MSBDFA Contract Financing Program makes loans and guarantees loans for working capital and equipment to businesses that have been awarded contracts by government agencies or public utilities. The Surety Bonding Program assists small contractors in obtaining bonding for government or public utility contracts that require bid, performance and payment bonds. In addition, MSBDFA offers the Equity Participation Investment Program and the Long-Term Guaranty Program.

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⁶ State Finance and Procurement Article, § 14-301((i)(1)(i)(5), Annotated Code of Maryland

⁷ Minority Business Enterprise Directory, Maryland Department of Transportation

⁸ FY 04 Minority Business Enterprise Report from the Governor's Office of Minority Affairs

The following programs provide indirect financial assistance to Maryland's small businesses:

➤ **Maryland Economic Development Assistance Authority and Fund (MEDAAF)**

There are five financing capabilities offered through this incentive program, with assistance being provided to the business community and political jurisdictions.

➤ **Economic Development Opportunities Fund (Sunny Day Fund)**

This fund promotes Maryland's participation in extraordinary economic development opportunities that provide significant returns to the State through creating and retaining employment as well as the creation of significant capital investments.

➤ **Maryland Industrial Development Financing Authority (MIDFA)**

MIDFA encourages private sector financing in economic development projects through the use of insurance, the issuance of tax-exempt and taxable revenue bonds and linked deposits.

➤ **Community Development Block Grant Program - Economic Development (CDBG - ED)**

This program provides funding to commercial and industrial economic development projects. Program funds are dispersed to a local jurisdiction in the form of a conditional grant and are then used for public improvements or loaned to a business.

➤ **Maryland Economic Adjustment Fund (MEAF)**

This Fund assists business entities in the State with the modernization of manufacturing operations, the development of commercial applications for technology and exploring and entering new markets. The program is administered in accordance with the guideline imposed by the Federal Government's Economic Development Act.

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IV. Inquiry Three

Recommend designating either DBED or the Department of Veterans Affairs as the State agency to implement an initiative to assist disabled veterans establishing small businesses.

As discussed more fully below, the Task Force recommends bifurcated responsibility between the Department of Veterans Affairs and the Governor's Office of Business Advocacy and Small Business Assistance, a DBED program.

Department of Business and Economic Development

The Governor's Office of Business Advocacy and Small Business Assistance (GOBA) is best equipped to serve as an advocate for the service-disabled veteran seeking to establish a small business in Maryland.

GOBA's mission is to connect small and minority-owned businesses to the appropriate resources, as well as to provide information, and to offer assistance with everything from permits and licensing requirements to creating a business plan.

Specifically, GOBA assists Maryland's small and minority businesses in:

- Navigating local, State and federal government regulations and processes;
- Identifying and connecting to resources;
- Growing and developing through specially tailored business seminars and forums;
- Understanding permitting and licensing requirements; and
- Accessing financing programs and a host of other services.⁹

By expanding its mission to include start-up businesses owned by service-disabled veterans, GOBA can leverage its existing expertise and serve as the nexus for connecting service-disabled veterans to the resources they need.

Department of Veterans Affairs

The mission of the Maryland Department of Veterans Affairs encompasses outreach to the State's veterans. As such, the Department should be tasked with informing the service-disabled veterans' population that resources are available to assist them in establishing a small business. Veterans Affairs is the logical first point of contact for veterans. The Department should enhance its existing web site to provide

⁹ *Maryland Small Business Resource Guide*, Department of Business and Economic Development

virtual links to the appropriate government programs (including GOBA). The Department should also provide personnel to advise service-disabled veterans on the various State and federal resources.

V. Further Recommendations.

Based on its research and deliberations concerning the three inquiries, the Task Force further recommends that the following steps be taken by the State:

1. The State implement a tracking system for service-disabled veteran-owned businesses in Maryland.¹⁰ Currently, the State does not have reliable data on veteran-owned businesses. Without such data, it is difficult to determine whether adequate State and federal resources are targeted for veteran-owned business.
2. Proposed Use of Existing State Procurement Programs

Small Business Reserve

The Small Business Reserve Program is based on business size standards alone but lends itself easily to participation by service-disabled veteran-owned businesses.¹¹ The State's Small Business Reserve Program has a self-certification process. The online certification process could be modified to include the DoD form or a VA Adjudication letter as evidence of the veteran's disability.

Under current law, qualified, service-disabled veteran-owned small businesses can participate in a Small Business Reserve procurement. But they are competing directly against non-veteran businesses with no procurement advantage for their military service.

The Task Force proposes Executive action or the introduction of legislation providing for a price preference of 10% for service-disabled veteran-owned small businesses when they bid on a Small Business Reserve procurement. The number of Maryland service-disabled veteran-owned small businesses available to participate in State contracting is not a critical factor in this proposal since the

¹⁰ The State Department of Assessments and Taxation has a comprehensive database of all registered business in Maryland, but there is no distinction in the registry for service-disabled veteran-owned businesses. The Task Force also discussed requiring that Maryland service-disabled veteran-owned businesses register in the existing federal database – the Central Contractor Registration.

¹¹ The federal service-disabled veteran-owned business program is also based on business size standards. Public Law 106-50, The Veterans Entrepreneurship and Small Business Development Act of 1999.

price preference only applies if a qualified SDVOB is submitting a bid. If no service-disabled veteran-owned small business submits a bid, the Small Business Reserve process is unaffected.

The Task Force also considered the State MBE Program which has a certification category for the disabled. The State standards for what constitutes a disability are different from those at the U.S. Veterans Administration.¹² Service-disabled veteran-owned small businesses seeking to participate as MBEs in State procurement are asked to certify their disability twice – once through the U.S. Veterans Administration and again for the State MBE certification program. Veterans designated as disabled by the U.S. Veterans Administration may not qualify under the State MBE program.

The Task Force ultimately determined the MBE Program is not the best choice to accommodate service-disabled veteran-owned businesses. The disability standards and the certification procedures are not easily modified to include service-disabled veteran-owned businesses.

3. The State should either establish a training program or enhance existing programs for service-disabled veterans with an emphasis on business development and government procurement.

¹² 38 CFR Part 3; State Finance and Procurement Article, §14-301, Annotated Code of Maryland

2004 VA Census Numbers (Maryland)
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Number of disabled veterans receiving compensation	48,909
Number of disabled veterans (by percent disabled rating)	
10%	14662
20%	8100
30%	6656
40%	5140
50%	2097
60%	2991
70%	7997
80%	1381
90%	764
100%	3984

Total	53772
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* Data provided by US Department of Veterans Affairs