Approved 3-21-89
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Senator Dave Kerr at
Chairperson

8:00 a.m./p.m. on March 14, 1989 in room 123-S of the Capitol.

All members were present except:

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Kans Leg. Research Dept
Carol de la Torre, Secretary to the Committee

Conferees appearing before the committee:

The meeting was called to order by Senator Dave Kerr, Chairman.

The Chairman advised that the Committee would be discussing loans and loan guarantees, specifically Senate Bill 278, and House Bill 2020, which passed the House of Representatives 123-0. He stated SB278 involves money coming from the Pooled Money Investment Board. The Chairman felt it would be helpful to understand at least part of how that entity operates and invests the state's idle funds and what the state gives up due to present law in the way of interest that could be earned.

Richard Ryan, Legislative Research, briefed the Committee on SB278 and gave background on the bill. The Chairman stated that he felt the bill, as written, doesn't really describe what was described at the hearing. The Chairman asked Mr. Ryan if the Committee were to pass this bill, would that type of activity be authorized. Mr. Ryan stated he felt an opinion was needed by the attorney general to state what the bill meant. The Budget Division has signed off on a fiscal note saying the bill isn't financed. The bill does not say from where the $50 million is coming. He stated that the bill needs work. For example, the bill would need to amend the state monies law which it does not now do.

Senator Kerr introduced Allen Bell, President, Kansas Development Finance Authority, who briefed the Committee on the pooled bond concept and updated them on this project.

Senator Kerr called attention to a handout from Dr. Charles Krider on programs other states have. The cover letter states Dr. Krider's favorable opinion concerning HB2020 (Attachment 1).

The Chairman stated that the programs in SB278 and HB2020 would be for smaller, less established companies, in some cases new entities. They would be a step below the projects described by Mr. Bell. The Chairman advised that further discussion of these bills would be scheduled for another day. He felt a sub-committee might be needed on this subject.

Minutes of the March 7, 1989, meeting were reviewed by the Committee. It was moved by Senator Francisco and seconded by Senator Oleen that the minutes be approved. Motion carried, minutes approved.

There being no further business the meeting was adjourned.

GUEST LIST

COMMITTEE: SENATE ECONOMIC DEVELOPMENT DATE: 3-14-89

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Alan Steppat	Topeka	Pete McGill & Associates
Ron Wilson	Wichita	Farm Credit Council
JEFF SONRICH	TOPEKA	KLSI
CHARLES WARREN	Topeka	Kansas Inc.
Bud Grant	"	KCCI
Rich Bailey	Topeka	KDOC
ALLEN BELL	Topeka	KDFA
JACK MONTGOMERY	TOPEKA	KDOC
Ann Patterson	Topeka	KDOC

The University of Kansas

MAR 13 1989

Institute for Public Policy
and Business Research

Anthony L. Redwood,
Executive Director

Copies for Eco Devo Committee

March 9, 1989

Senator David Kerr, Chairman,
Senate Committee on
Economic Development
State Capitol, Topeka, Kansas

Dear Senator Kerr:

In response to the committee's inquiry about the existence of loan and loan guarantee programs in other states, we have compiled a list from the Directory of Incentives for Business Investment and Development in the United States, by the National Association of State Development Agencies. The edition is from 1986, and thus will not reflect recent legislation, but should give you an impression of programs in other states. Their index of "Loan Guarantees" includes the following states:

California	Connecticut	Indiana
Louisiana	Maine	Maryland
Michigan	Minnesota	Mississippi
Missouri	Montana	New Hampshire
New Jersey	Vermont	Virginia

The directory also lists these states which offer "Direct State Loans":

California	Michigan	Oklahoma
Connecticut	Minnesota	Oregon
Florida	Mississippi	Pennsylvania
Hawaii	Missouri	Puerto Rico
Illinois	Montana	Rhode Island
Indiana	Nevada	South Carolina
Kentucky	New Jersey	Texas
Louisiana	New York	Vermont
Maryland	Ohio	West Virginia

Attached is a listing of these states, with a brief explanation of the programs offered of each type. I hope that this information will be helpful in your consideration of House Bill 2020.

Guarantees v. Direct Loans

One issue on HB 2020 is the question of leveraging of the funds under direct loan and loan guarantee programs. I would point out that under either option there would be substantial leveraging of state funds. In a guarantee program there should be a determination of how much leveraging would be allowed, thus a reserve of $1 million could guarantee $4 million in loans for a 4:1 leveraging. Since the state would likely guarantee only a certain fraction of actual loan amounts, the loan activity generated would

Sen Eco-Devo
3-14-89
attachment 1

be even greater. For example, if the state's portion guaranteed is 75%, the total loan activity supportable by $1 million in state funds would be $5.33 million. The assumption underlying such a program would be that any losses due to default would not exceed the 25% reserve. The direct loan program as proposed in HB 2020 would also yield similar leveraging. The $1 million in state money could be used to issue $4 million in bonds. With a 75% contribution limit to projects by the state, the total loan activity generated would be the same as the example above. Thus, either option yields similar leveraging of state money.

The main difference between the two options is that the program in HB 2020 would provide funds to a lending institution, which would then pass them on to the businesses to receive the loan. For banks lacking large amounts of available capital resources, this would be a major advantage.

Another difference involves default risk. Under a direct loan program, as in HB 2020, the banks themselves carry less of the risk, because 75% of every loan is fully backed by the state. The risk is shifted to the bondholders. A key question to be considered in light of this fact is whether or not it will be feasible to sell $4 million worth of bonds, backed by a $1 million reserve, and bearing an uncertain level of risk. If so, it is clear that banks should prefer to cooperate with HB 2020 over a loan guarantee program, because they have access to additional funds and their risk is less. The risk to the state is the same under both approaches.

My conclusion is that HB 2020 has advantages over a straight loan guarantee program. Please feel free to contact me if you need any further information or have any questions.

Sincerely,

Charles Krider
Professor of Business,
Director of Business Research

STATES OFFERING DIRECT LOANS AND/OR LOAN GUARANTEES

<u>California</u>- The state offers direct loans under 3 revolving loan funds, that provide working capital and fixed-asset direct loans to firms located in certain distressed areas. "Manufacturing or commercial firms are encouraged to apply." Jobs created or saved are a major consideration.

California also offers a loan guarantee program with statewide eligibility for amounts of up to $350,000 or 90% or the loan amount, with a 1.5% fee.

<u>Connecticut</u>- The state offers a number of different direct loan programs, including the **Small Contractors Revolving Loan Fund**, the **Small Manufacturers Revolving Loan Fund**, and the **Loan Incentive for Employment Program**, as well as programs specific to certain regions and enterprise zones.

The state offers a **"Mortgage Insurance Program"** as well, pledging the full faith and credit of the state to insure payment of first mortgage loans made by private lenders to "industrial companies." Eligibility is limited primarily to enterprises engaged in manufacturing, wholesale distribution, and R&D, though others may be considered under special circumstances.

<u>Hawaii</u>- The **Hawaii Capital Loan Program** is a direct loan program to provide low-interest financing for small businesses unable to obtain financing from conventional sources. The department prefers businesses that will create new jobs, and eligibility is limited to businesses that meet the SBA definition of "Small Business."

<u>Illinois</u>- The **Illinois Development Finance Authority Direct Loan Program** is designed to encourage economic development by "assisting manufacturing or other industrial projects that create or retain jobs." Manufacturing or other industrial projects are eligible, and must demonstrate a favorable ratio of jobs created or retained relative to the size of the loan. The IDFA **Venture Fund** is targeted at similar businesses that are start-ups or in an early stage of development. The **Fixed-Rate Financing Fund** is for Illinois companies creating new employment opportunities for low- to moderate-income workers.

<u>Indiana</u>- The **Industrial Development Fund** provides direct loans to municipalities in conjunction with a specific industrial location or expansion. Job creation and private sector investment are stressed.

The **Indiana Loan Guarantee Program** is used to guarantee loans or bonds secured by real estate and equipment for any **manufacturing** enterprise, and may also guarantee working capital loans for unique capital requirements of such firms resulting from increased sales to federal, state, or local governments or to foreign buyers. They do not constitute the full faith and credit of the state.

Kentucky- The Kentucky Development Finance Authority offers direct loans of 25%, or $5,000 per job created, toward the costs of land, plant, and equipment for an individual project. Eligibility is **limited to manufacturing, tourism, or agribusiness ventures.**

Louisiana- The **Minority Business Development Authority (LAMBDA)** provides loan assistance to businesses operated by socially or economically disadvantaged persons who are unable to obtain such assistance from traditional sources. The **State Market Commission** makes direct loans for facilities that are used for processing, marketing, distributing, or storing agricultural products. Purchase or improvement of an existing plant or building of a new plant for these purposes are eligible projects.

LAMBDA also provides guarantees to encourage loans to businesses by private lending institutions. Eligibility is the same as that for the direct loan program, and amounts may be 75% of the loan amount up to $100,000.

Maine- Maine has a number of different loan **guarantee** programs. One provides guarantees for any type of small business, and another is for small businesses owned by veterans. The third is called the **Natural Resource Entrants Guarantee Program**, which assists small businesses engaged in producing, harvesting, manufacturing, processing, etc. of agricultural, forestry, fishing, or related goods.

Maryland- The state has three direct loan programs: the **Maryland Small Business Development Financing Authority** revolving loan fund, which assists "socially or economically disadvantaged businesspersons to provide working capital to complete projects under federal, state or local government contracts. The **Industrial and Commercial Redevelopment Fund** makes loans to counties or incorporated jurisdictions to provide supplemental "gap" financing assistance to local government to facilitate industrial and commercial redevelopment. The loans may be passed on by the counties to third parties to complete projects. The **Industrial Land Act** gives loans to counties and municipalities for the acquisition and development of industrial land.

There are several guarantee/insurance programs offered by Maryland. The conventional loan insurance program insures conventional loans made by financial institutions up to the lesser of 80% or $1,000,000, and the assistance "may not be provided in connection with a retail establishment unless...such assistance will accomplish the purposes of the MIDFA Act. Their **Small Business Finance Authority** guarantees loans in connection with government contracts, and **a Day Care Facilities Loan Guarantee Program** for the creation or expansion of such facilities.

Michigan- Three loan programs are operated in the state, one targeted to minority-owned businesses, one for firms "building and improving upon the state's industrial base" (or any base firm), and the third for cases where it is clearly necessary to provide below-market financing to attract or retain base firms.

The **Michigan Strategic Fund/Center for Loan Insurance** backs up loans in conjunction with lending institutions for businesses that are slightly too risky for a conventional loan, but only **nonretail** firms are eligible.

Minnesota- There are six direct loan programs in the state, some of which are very specifically targeted - as the name implies. The **Minnesota Fund** provides loans to manufacturing or industrial corporations, partnerships, or sole proprietorships that are not dominant in their field, and may not exceed 20% of project cost. The **Small Business Development Loan Program** is targeted to existing manufacturing and industrial firms that want to expand in Minnesota. 80% of cost is available for capital expenditures, 75% for equipment specifically. Other programs are the **Energy Development Loan Program, the Tourism Loan Program, the Waste Tire Recycling Loan Program, and the Indian Business Loan Program.**

The state also provides guarantees under the **Energy Loan Insurance Program** and the **Agricultural Resource Loan Guaranty Program.**

Mississippi- The **Mississippi Business Investment Program** makes grants or loans to counties, cities, towns, or port agencies in order to install specific improvements necessary to complement investment by private companies. Eligible private companies include agricultural, manufacturing, and R&D enterprises, agencies operating state-owned ports, and **"industrial enterprises other than mercantile, commercial, or retail."**

The state also operates a **Small Business Guaranty Loan Program**, to assist the development or expansion of new small businesses.

Missouri- The **Missouri Industrial Development Board** provides loans for any project that will provide economic development benefits for the state, up to $200,000.

Loan guarantees are also available for projects that will generate new jobs and contribute to the economic well-being of the state.

Montana- Montana provides for direct loans in three programs, one is targeted to encourage private-sector involvement in energy and natural resource areas, the second is available for any kind of business that will use the loan for economic development of the state, and the third is a Coal Tax Loan.

The **Montana Economic Development Board** will guarantee up to 80% of loans made by approved financial institutions.

Nevada- The **Nevada Revolving Loan Program** is designed for small business expansions that will create jobs for low- to moderate-income persons. It will provide up to $100,000 to businesses that cannot secure all the financing they require from commercial lenders.

New Hampshire- The state will provide loan guarantees for real estate and machinery and equipment for manufacturers as well as to acquire or construct recreational facilities. Loans will not be guaranteed for service, commercial, and/or tourism industry projects.

New Jersey- The state makes direct loans to help finance eligible job development projects, and can be used for either fixed assets or working capital. The projects must be unable to obtain conventional financing, and there must be a reasonable prospect of repayment. Guarantees are also available from the state for industrial development projects.

New York- New York will provide direct loans to new and emerging businesses in destressed rural communities for environmentally sound development projects. It will provide up to 20% of the project cost, and projects must be in communities of 25,000 population or less.

Ohio- The state provides loans to businesses that are locating or expanding in Ohio and that demonstrate the ability to create new jobs. The loan cannot exceed 30% of the cost of the project, and eligible projects are the acquisition of land and buildings, new construction, renovation to existing buildings, and acquisition of machinery and equipment. Funds cannot be used for working capital. State funds are received after completion of the project.

Oklahoma- The **Oklahoma Industrial Finance Authority** makes loans for up to 255 of the costs of land, buildings, and manufacturing equipment, with a maximum amount of $1 million for the state's share. Eligibility is limited to **manufacturing or processing firms and industrial parks.** Jobs created or retained and creditworthiness are the criteria.

Oregon- The **Oregon Port Revolving Fund** provides loans to port districts for improvements to port facilities or to assist private firms located within their jurisdictions. The loans are for up to $500,000, and eligible business activities include manufacturing, agriculture, R&D, natural resource development, and other areas, but **not retail establishments.** The **Business Development Fund** can be used for acquisition, construction, and operation of property, real or personal, for a variety of activities, but specifically excluding **construction of office buildings (incl. corp. headquarters), retail businesses, shopping centers, or food service facilities, and relocation of a facility from one labor market area to another.**

Pennsylvania- The state operates five different direct-loan related programs. The **Penn. Industrial Development Authority** administers long-term, low-interest business loans to stimulate economic activity in areas of high unemployment. They will provide up to 70% of the financing for eligible projects by small businesses, 60% for large businesses. The higher the unemployment, the larger the percentage, and the lower the interest rate. Eligible businesses are **manufacturing and industrial firms, R&D complexes, agricultural businesses, warehouse and terminal facilities, office buildings used as national or regional headquarters, and computer or clerical operations centers.** Another program is similar, but is targeted to minority businesspersons who are economically disadvantaged and who are unable to obtain financing from traditional sources. The **Penn. Capital Loan Fund** provides funds that may be used to assist in the start-up and expansion of firms that are engaged in **industrial, manufacturing, apparel, or export-service business.** The last two programs are a business incubator program, and a grant/loan program targeting energy development.

Rhode Island- Rhode Island has two direct loan programs. The first is the **Business Investment Fund,** which is available to any small business in the state that qualifies under the SBA definition of small business. Loan amounts range from $30,000 to $500,000, and can be used for fixed asset (but not land or buildings) and working capital. The **Small Business Revolving Loan Fund Program** provides loans of $25,000 to $150,000 for fixed-assets and up to $30,000 for working capital to small businesses, but this program is limited to **manufacturers, processors, and selected service firms.**

<u>South Carolina</u>- The state offers direct lending through its **Jobs-Economic Development Authority**, with the primary focus of stimulating the creation of permanent jobs in business and industry. Loan amounts cannot exceed $10,000 per job created, up to $250,000. The loans are available to assist private for-profit enterprises and are **confined to manufacturing, industrial, or service businesses (excluding food and retail establishments)**. Net worth of the enterprise must be $1,000,000 or less, or their net after-tax profit must have averaged not more than 20% of the firm's net worth for the prior 3 years.

<u>Texas</u>- The **Rural Loan Fund** provides low-interest loans to communities in designated rural areas of the state for assistance in industrial locations and expansions. Eligible enterprises include manufacturing and industrial projects, and the benefit to the rural area must exceed the cost of the financial commitment of the state, or the project must help alleviate unemployment or assist in the state's industrial development.

<u>Vermont</u>- The **Vermont Industrial Development Authority** will grant direct loans to businesses to finance the purchase of land, buildings, and equipment in industrial projects, to encourage job creation and retention and increase per capita income in the state. An **eligible business must be involved in manufacturing, mining, warehousing, R&D, or pollution control and waste management or must be a multistate corporation proposing to build a national or regional headquarters in Vermont.** Maximum loans are $300,000 for land and buildings plus $100,000 for equipment, and cannot exceed 40% of project cost.

VIDA also provides guarantees for commercial loans to industries for the purchase of land, buildings, and equipment. Eligibility is restricted to the same activities as in the loan program above.

<u>Virginia</u>- Virginia offers working capital loan guarantees in conjunction with its program involving state-issued industrial development bonds. Businesses must have 250 or fewer employees and either a net worth of less than $2,000,000 or less than $10 million in annual gross income.

<u>West Virginia</u>- The state has two direct state loan programs. The **West Virginia Economic Development Authority** provides low-interest loans to existing in-state companies for expansion and to companies locating in the state. Funds can cover up to 50% of costs for land acquisition, building construction, and equipment purchases. Any firm is eligible, but the program is **"geared toward manufacturing firms."** The second loan program is the **Treasurer's Economic Development Incentive,**

which is somewhat indirect in its application. The state buys a CD at up to 3% below the current CD rate, and the bank concurrently concludes a loan with the business at 3% below the current commercial loan market rate. Eligible businesses must be (1) organized for profit and located in the state; (2) an employer of 200 or fewer persons (majority W.Va. residents) or with gross annual receipts of $4 million or less; (3) able to certify that its reduced rate loan will be used exclusively to create now jobs or preserve existing jobs.