

SENATE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

March 03, 1999 Hearing Room B

3:00 p.m. Tapes 28 - 29

MEMBERS PRESENT: Sen. John Lim, Chair

Sen. Avel Gordly, Vice-Chair

Sen. Verne Duncan

Sen. Tony Corcoran

Sen. Bill Fisher

MEMBER EXCUSED:

STAFF PRESENT: Carol Rives, Administrator

Gary Roulier, Administrative Support

MEASURE/ISSUES HEARD: Introduction of Committee Bills

SB 112 Public Hearing

SB 113 Public Hearing

SB 402 Public Hearing and Work Session

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 28, A		
001	Chair Lim	Opens meeting at 3:09 p.m. and opens work session on the introduction of committee bills.
<u>WORK SESSION</u>		

012	Sen. Corcoran	MOTION: Moves LCis: 944, 2577, 3169, 3169-1, 3697, 3699 BE INTRODUCED as committee bills.
017		VOTE: 3-0 EXCUSED: 2 - Duncan, Fisher
		Hearing no objection, declares the motion CARRIED.
023	Chair Lim	LCis 944, 2577, 3169, 3169-1, 3697, 3699 will be introduced as committee bills.
027	Chair Lim	Closes work session and opens public hearing on SB 112 and SB 113. Presents gavel to Vice-Chair Gordly to conduct this portion of the meeting.
<u>SB 112 AND SB 113 PUBLIC HEARING</u>		
038	Vice-Chair Gordly	Explains the provisions of SB 112, which directs the Oregon Economic Development Department (OEDD) to establish criteria for identifying areas of economic distress and inadequate lending practices. Summarizes SB 113 which directs the OEDD to prepare a report to the Legislature that analyzes certain federal banking legislation.

051	Sharon Hill	Senior Legislative Aide for Sen. Gordly. Presents (EXHIBIT A) and reviews the history of the development of the bills (page 1 of the exhibit).
086	Hill	Discusses actions during the interim to develop programs for distressed areas in urban and rural Oregon. Adds that SB 402 is a better solution for distressed areas than SB 112.
120	Hill	Notes that the OEDD has implemented reorganization efforts but still needs to assess gaps that remain in assisting Oregon's distressed communities. Outlines conceptual changes to SB 113 to study gaps in assistance (page 3 of the exhibit).
173	Hill	Concludes by urging a partnership with an academic institution to complete the study during the interim.
188	Rep. Gary Hansen	President of the Association of Oregon Counties. Presents (EXHIBIT B) and testifies in support of SB 112 and SB 113. Emphasizes that depressed agricultural markets and Asian export problems have created a need for bold solutions.
232	Mark Huston	Business Finance Manager, OEDD. Presents (EXHIBIT C) and emphasizes the

department's interest in working in distressed areas of the state. Notes that there are numerous financial partners working on OEDD loan programs throughout the state.

- 292 Huston Notes that the OEDD is working with the Oregon Association of Minority Entrepreneurs, the Native American Business Entrepreneurs and other business development organizations. Emphasizes that continual outreach is critical because of turnover in the banking industry.
- 330 Vice-Chair Gordly Asks if the proposed changes to SB 113 (page 3 of **EXHIBIT A**) would strengthen SB 402.
- 335 Huston Responds that the proposed changes would complement SB 402.
- 359 Doris Penwell Legislative Coordinator, OEDD. Notes that during the interim, OEDD studied the financing gaps that exist in distressed communities but that more study needs to be done.
- 382 Vice-Chair Asks if OEDD has the resources to accomplish the study outlined in SB 113.
- 390 Penwell Responds that OEDD estimated the cost of the study under the original bill to be \$50,000 but has not been able to make a cost estimate under the new proposals. Adds that administering loan programs in rural areas is more expensive.

TAPE 29, A

- 004 Vice-Chair Gordly Remarks that a partnership with an educational institution such as Portland State University would be valuable.
- 009 Tim Martinez Oregon Bankers Association. Testifies that the association is neutral on SB 112. Adds that with respect to SB 113, there is a growing market in Oregon and the nation for community banks. Notes that the association supports SB 402 and its successful loan programs.
- 038 Martinez Notes that he does not support incorporating the study proposed in SB 113 into SB 402 and that the study could be done by the Oregon Bankers Association.
- 063 Chair Lim Asks for the definition of "distressed areas."
- 067 Huston Presents (**EXHIBIT D**) and responds that the definition is contained in OEDD administrative rules.
- 082 Sen. Fisher Asks whether both rural and urban areas would be assisted under the provisions of

these bills.

091	Huston	Responds that the index is based on a number of factors including unemployment levels. Notes that North/Northeast Portland and Lents in Portland are the two urban areas that have been designated as distressed.
107	Chair Lim	Asks where the Lents area is.
111	Vice-Chair Gordly	Responds that it is the outer southeast area of Portland.
120	Chair Lim	Asks who designates "distressed areas."
127	Penwell	Responds that the Director of OEDD designates "distressed areas." Adds that any area within the state can request the designation if they feel they fit the criteria. Notes that there are now five areas in Lane County that have requested the designation of "distressed."
144	Chair Lim	Asks if there is a correlation between distressed areas and enterprise zones.
149	Penwell	Notes that there are connections between the two designations but the procedures for application are different.
159	Chair Lim	Asks how many distressed areas are in the state.
161	Penwell	Refers to a list of the distressed areas (page 1 of the exhibit).
175	Sen. Fisher	Asks whether an area such as Lents could qualify as an enterprise zone.
182	Penwell	Responds that the enterprise zone program is designed for an area of low to moderate unemployment that needs further development.
191	Sen. Fisher	Asks whether a built-up area has enough vacant area for development.
200	Huston	Responds that the North/Northeast Portland Enterprise Zone has added vacant commercial property to the zone for development.
226	Chair Lim	Accepts the gavel from Vice-Chair Gordly, closes the public hearing on SB 112 and SB 113 and opens a public hearing on SB 402.

SB 402 PUBLIC HEARING

238	Carol Rives	Administrator. Explains the provisions of SB 402 which propose statutory provisions to bring OEDD loan programs in line with the recommendations made by the interim workgroup. Adds that the bill also eliminates the sunset date for the Entrepreneurial Development Loan program.
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282	Rives	Presents (EXHIBIT E), a letter from Mark Huston outlining the business loan programs managed by OEDD.
312	Huston	Testifies in support of SB 402 and notes that the bill gives OEDD additional tools to assist distressed areas of the state.
331	Chair Lim	Asks about the Targeted Development Account.
335	Huston	Responds that the Targeted Development Account would be an account within the Oregon Business Development Fund (OBDF) and allow OEDD to make below-market interest rate loans to businesses in distressed areas.
367	Chair Lim	Asks about the amount available to the fund.
371	Huston	Answers that the proposed amount would be approximately \$2 million but would depend primarily on demand.
392	Chair Lim	Asks about the total amount available in the OBDF.
397	Huston	Responds that the total capitalization of the fund is approximately \$16 million with \$6 million in liquid funds available for loans.

TAPE 28, B

002	Chair Lim	Asks about OBDF loss and the net additional provision for loan loss figures.
005	Huston	Responds that the figures represent different things. Explains that the loss figure represents the actual losses that have been written off. Adds that the net additional provision figure is a reserve set aside for potential losses from higher risk loans (page 1 of the exhibit).
020	Chair Lim	Asks why the loss and net additional provision for loan loss figures for the Entrepreneurial Development Loan Fund (EDLF) are so high.
028	Huston	Responds that these loans are made to start-up companies. Adds that this is seed money designed to get the companies into a position where they can get normal bank financing.
048	Sen. Duncan	Asks about the losses that a normal bank would expect in these high risk investments.
051	Huston	Answers that the OEDD experiences approximately two to three times the losses of a normal bank in their guaranteed loan programs.

061	Chair Lim	Asks about the total amount in the EDLF.
062	Huston	Responds that the EDLF has approximately \$1.6 million in net assets.
071	Chair Lim	Asks about the provision of Section 6 of SB 402 which would repeal a section of the Oregon Statute.
076	Rives	Responds that it refers to the sunset provision of the loan program. Discusses the permanent elimination of the sunset provision.
117	Huston	Remarks that OEDD would be comfortable with or without a sunset provision.
132	Chair Lim	Asks about OEDD's opinion on whether some of the provisions of SB 112 could be incorporated into SB 402.
140	Huston	Responds that SB 112 has a fiscal impact and would therefore be referred to Ways and Means. Notes that SB 402 has no fiscal impact and could be moved forward immediately.
154	Chair Lim	Closes the public hearing and opens a work session on SB 402.

SB 402 WORK SESSION

166	Chair Lim	Discusses the provisions of SB 402 which eliminate the sunset date and notes that the legislature will be able to review the OEDD budget each biennium and thereby monitor the loan programs.
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183	Sen. Corcoran	MOTION: Moves SB 402 to the floor with a DO PASS recommendation.
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185		VOTE: 4-0
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AYE: In a roll call vote, all members present vote Aye.

EXCUSED: 1 ñ Gordly

Chair	The motion CARRIES.
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SEN. GORDLY will lead discussion on the floor.

196	Chair Lim	Closes work session and adjourns meeting at 4:21 p.m.
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Submitted By, Reviewed By,

Gary Roulier, Carol Rives,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ SB 112 and SB 113, written testimony, Sharon Hill, 4 pp

B ñ SB 112 and SB 113, written testimony, Gary Hansen, 1 pp

C ñ SB 112, written testimony, Mark Huston, 2 pp

D ñ SB 112 and SB 113, chart, Mark Huston, 1 pp

E ñ SB 402, written testimony, Mark Huston, 2 pp