

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

January 30, 1997 Hearing Room 343

1:00PM Tapes 7 - 8

MEMBERS PRESENT:

Sen. John Lim, Chair

Sen. Joan Dukes, Vice-Chair

Sen. Bill Fisher

Sen. Avel Gordly

Sen. Veral Tarno

MEMBER EXCUSED: Sen. Gary George

STAFF PRESENT:

Jim Stembridge, Administrator

Julie Havel, Administrative Support

MEASURE/ISSUES HEARD:

SB 210 Public Hearing and Work Session

SB 212 Public Hearing

SB 213 Public Hearing

SB 14 Public Hearing

SB 214 Public Hearing

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 7,A		
010	Chair Lim	Calls meeting to order at 1:10pm.
015	Chair Lim	Opens public hearing on SB 210.
<u>SB 210--</u> <u>PUBLIC</u>		

HEARING		
019	Mark Huston	Manager, Business Finance, Oregon Economic Development Department, testifies in favor of SB 210 (EXHIBITS A AND B).
050	Chair Lim	Asks if Huston thinks the agency needs to be in the "banking business".
056	Huston	Explains the agency is only stepping in to fill the "final gap" in the financing package to help both businesses and the banks.
081	Huston	Gives overview of Business Finance Department programs:
		<ul style="list-style-type: none"> * Oregon Business Development Fund * Capital Access Program * Oregon Entrepreneurial Development Loan Fund * Oregon Industrial Development Revenue Bond Program * Oregon Credit Enhancement Fund
122	Sen. Gordly	Asks for comparison between these programs and the Office of Minority, Women, and Emerging Small Business.
135	Huston	Explains they have worked very closely with at least three organizations representing minorities and have strong relationships with them.
164	Sen. Gordly	Asks for further clarification on whether the agency has a working relationship with the actual "Office" of Minority, Women, and Emerging Small Business, and why the office is not part of the Oregon Economic Development Department.
180	Huston	States his office has had an excellent working relationship with the office, but cannot give concrete explanation as to why it is not in OEDD.
207	Huston	Continues overview of Entrepreneurial Loan Fund
229	Chair Lim	Asks whether Huston believes program should continue.
232	Huston	Explains the program was initially targeted toward the timber communities, but the 1993 legislature expanded it statewide, and continuation of the program is in the Governor's budget, but no additional funding has been added through the next biennium.
242	Huston	Continues overview of Industrial Development Revenue Bond Program, which for manufacturing and industrial companies to expand their operations. Key feature involves revenue bonds which are tax exempt, allowing companies to borrow at a substantially reduced rate. Affects more mid-sized companies. State does not provide any resources for this program.
275	Huston	Continues testimony with overview of Oregon Credit Enhancement Program, which initially focused on secondary wood products and food processing companies and was later expanded to include all manufacturing companies. Maximum loan is \$500,000, with the average loan about \$250,000, mostly to assist companies with working capital.
312	Sen. Lim	Asks if the program also includes international trade.

316	Huston	Explains it is mostly focused on domestic transactions, but a few projects have ventured into the export market.
328	Sen. Fisher	Asks about fee schedule in conjunction with program.
346	Huston	Explains the fee would be charged against the amount guaranteed. Fees would go into a reserve account to help the program remain self sufficient.
356	Chair Lim	Asks if the committee should agree to continue the programs as they are, or consider combining some of them, and states the committee may revisit the issue in the future.
376	Huston	Summarizes testimony and gives program statistics in conjunction with the Capital Access Program, which average \$35,000 but can be as low as \$1,000.
TAPE 8, A		
030	Huston	Continues overview and intended results of SB 210, stating it is designed to encourage banks to give loans to distressed areas of the state, offers list of distressed areas, and invites committee questions.
058	Sen. Gordly	Asks for list of distressed areas in Oregon and a comparison/contrast as to where the 160 jobs have been created
072	Huston	Submits list to committee (EXHIBIT C), comments the list has grown shorter over the past two years, and does not include enterprise zones. Comments he would be glad to obtain the information requested by Senator Gordly for the entire committee.
083	Sen. Dukes	Asks for a practical application of the amendment that provides not less than 150% match of loss reserve account fees.
08	Huston	Explains using example of a \$50,000 start up company in Columbia County.
118	Sen. Dukes	Continues with follow up questions and discussion.
138	Sen. Gordly	Asks what net result would be if committee approves policy changes in SB 210 and SB 212--would it be a decrease in the number of loans available?
148	Huston	Predicts that if the increased match was not extended, there would likely be a decrease in spending in distressed areas of the state. If the second provision is approved, (changing the fee paid by the borrower decreases from 4% to 3%) the number of borrowers and potentially the number of banks in the program would increase.
162	Chair Lim	Asks for and receives clarification on what "not less" than 1 and 1/2 percent means.
172	Sen. Gordly	Asks for and receives clarification on her previous question regarding increase in volume of loans if the provisions are improved.
178	Lim	Asks for breakdown of how many minorities are taking advantage of this program.
189	Huston	Explains they do not request that information from the bank and therefore do not track that information.

195	Chair Lim	States he would like to have that information, adding that this state has a 12% minority so he thinks they need to make sure minorities are receiving a reasonable share of these incentives. Asks for and receives clarification on second page of Huston's testimony , where it indicates net loss of over \$874,000.
226	Sen. Fisher	Asks for rule of thumb on how many loans typically "go sour".
239	Huston	Explains \$875,000 is similar to other states which have similar programs, and he is relatively "comfortable" with those projections.
256		Discussion continues regarding claims.
280	Chair Lim	Closes hearing on SB 210 and opens work session on SB 210.
<u>SB 210-- WORK SESSION</u>		
286	Sen. Fisher	Asks about reduction in loan fee.
295	Huston	Explains that the borrower would pay the minimum fee, which would drop from 4% to 3%, but the fee could go up to 7%.
309	Chair Lim	Re-opens public hearing and invites public testimony.
<u>SB 210-- PUBLIC HEARING</u>		
313	Chair Lim	Receives no further testimony; closes public hearing on SB 210 and re-opens work session on SB 210.
<u>SB 210-- WORK SESSION</u>		
315	Sen. Lim	MOTION: Moves SB 210 to the floor with a DO PASS recommendation.
324		VOTE: 5-0
		AYE: In a roll call vote, all members present vote Aye.
		EXCUSED: 1 - Sen. George
	Chair	The motion CARRIES.
		SEN. LIM will lead discussion on the floor.
328	Chair Lim	Closes work session on SB 210 and opens public hearing on SB 212.
<u>SB 212-- PUBLIC HEARING</u>		
400	Mark Huston	Manager, Business Finance, Oregon Economic Development Department, testifies in support of SB 213, (EXHIBITS D, E, F)

TAPE 7, B		
035	Huston	<p>Explains agency's proposed program changes:</p> <ul style="list-style-type: none"> * Increase maximum loan amount to \$500.00 * Increase maximum loan approved by Director to \$100,000. * Increase maximum to emerging small businesses that exceed the 20 percent limit to \$100,000. * Increase maximum jointly funded project to \$500,000/ * Eliminate requirement that application be forwarded to local governments.
041	Sen. Gordly	Asks for examples of the loans currently approved by the director.
053	Huston	Explains they include manufacturing, processing, and tourism related business, but Director has the discretion to speed up the review by approving them.
056	Sen. Gordly	Asks for and receives clarification on whether any of the loans are from the list in Exhibit E.
069	Sen. Dukes	Asks about Entrepreneurial Development Loan Fund and its purpose.
082	Huston	Explains the program works with the Small Business Development Center to prepare a business plan with the start-up business and grants a micro-loan to help them get their start in getting the business off the ground.
099		Discussion is held regarding the risk of losing venture capital vs. helping small, start-up businesses expand and get on their feet.
147	Sen. Dukes	States she has a problem increasing the amount to \$40,000 when there are already losses at \$15,000. Asks if people would be better off if they changed this to a grant program.
149	Huston	States the lending aspect allows them to continue the program, and he believes the signing of a note weeds out the serious businesses from some who may be discouraged by having to sign a loan.
159	Sen. Tarno	Asks for in-depth information on the program, such as history and financial statements, including some from his part of the state.
170	Huston	States he will get that information to the committee.
175	Sen. Fisher	Shares concerns regarding Roseburg area logging the all -native hardwood products, but not receiving any help from programs such as this. Asks if this program were in existence at that time or whether they would qualify for such a program today.
218	Huston	Explains the Oregon Business Development fund was in place, and acknowledges the need for constant marketing for the programs to get the word out to the business community.
		Asks whether increasing the loan amount would help more businesses

225	Sen. Gordly	succeed--or if decreasing amount would decrease the losses.
238	Huston	Comments he believes the same amount of losses would be involved.
249	Sen. Gordly	States specific case examples on a certain business in a certain community would help committee gain better understanding,
258	Chair Lim	Closes public hearing on SB 212 and reschedules work session to give committee opportunity to get more information, opens public hearing on SB 213.
<u>SB 213-- PUBLIC HEARING</u>		
300	Mark Huston	Manager, Business Finance, Oregon Economic Development Department, testifies in favor of SB 213, which adds statutory language to the Credit Enhancement Fund (EXHIBIT G).
334	Huston	Gives overview of the Credit Enhancement Fund as it exists today.
353	Huston	Explains the agency advocates adding two housekeeping amendments to the bill: * Page 1, line 11 * Page 3, line 27
<u>TAPE 8, B</u>		
006	Huston	Concludes testimony, invites committee questions.
12	Sen. Tarno	Asks about fee charged in guarantee.
16	Huston	Explains a fee is charged for the guarantee when they make it --generally between 1 and 1/4 percent and three percent of the guaranty amount. This proposal would add the fee for the work that would be done before the application is submitted by the bank, a nominal 250 dollar fee paid by the business to support the administrative work that has to be done.
026	Chair Lim	Closes public hearing on SB 213 and opens public hearing on SB 14.
<u>SB 14-- PUBLIC HEARING</u>		
43	Jim Stembridge	Committee Administrator, explains general background of SB 14, which came out of the interim committee on Trade and Economic Development. Bill would set a 4-to-1 leverage limit for funds available for the Credit Enhancement Fund.
066	Mark Huston	Manager, Business Finance, Oregon Economic Development Department, states SB 14 limits the Department's flexibility and recommends one modification on line 6, to allow for more flexibility, (EXHIBIT H).
097	Chair Lim	Closes public hearing, and states work session for SB 213 and SB 14 will be held together.
111	Chair Lim	Opens public hearing on SB 214.

<u>SB 214-- PUBLIC HEARING</u>		
115	Jim Stenbridge	States this bill comes to the committee from the Department through the Governor's Office so it is appropriate that they comment on the bill.
123	Warren Banks	Manager, International Division, Oregon Economic Development Department, testifies in support of SB 214 (EXHIBIT I), and gives brief overview of International Division.
155	Banks	Explains the changes contained in SB 214 allow the International Division flexibility in meeting client needs and the ability to serve more Oregon companies, while retaining the ability to charge fees or reimburse certain costs for services rendered.
160	Chair Lim	Asks what fees have been charged in the past.
165	Banks	States the fees generated under the contract program barely cover the cost of administering the program, but does not have a dollar amount. Adds the records containing that information do not exist.
184		Discussion held on project fees raised vs. costs.
191	Sen. Gordly	Asks for clarification on whether this bill has the Governor's support.
205	Banks	States as far as he knows it does have the Governor's support.
212	Sen. Gordly	Asks when they plan to develop a fee schedule and when will the committee be able to review it.
218	Banks	Explains the fee schedule must be arrived at in conjunction with the International Trade Advisory Committee, which meets every other month--so it will likely be sometime after their April meeting.
217	Sen. Dukes	Asks about recovery of overhead costs associated with the bill.
232	Banks	Explains they are trying to simply get paid for the work they do, and to avoid situations such as a company requesting a study and then failing to use the information.
260		Discussion continues over issue of costs associated with producing the report.
302	Chair Lim	States the meeting must adjourn at 3:00, invites additional questions from members.
308	Sen. Tarno	Asks about "broadness" of section 4 and comments it is confusing to him.
330	Banks	Agrees to re-visit the wording in the Bill.
332	Sen. Fisher	Asks about the effects of changing the word "may" to "shall".
347	Banks	Explains in the original bill, which was SB 85, the "contract program" stopped functioning in early 1995--so the "shalls" applied to the contract program and not to other services that they provided.
370	Sen. Fisher	Continues with follow up question on the wording, states the important thing is deleting the words on an individual contract basis, and shares his concerns with changing the "shall" to a "may".

420	Banks	Acknowledges his point.
425		Discussion continues on language in the bill.
451	Chair Lim	Closes Public hearing on SB 214
455	Chair Lim	Adjourns meeting at 2:58pm.

Submitted By, Reviewed By,

Julie Havel, Jim Stembridge,

Administrative Support Administrator

EXHIBIT SUMMARY

A - SB 210, finance programs overview, Mark Huston, 2pp.

B- SB 210, written testimony, Mark Huston, 2pp.

C- SB 210, list of distressed counties in Oregon, Mark Huston, 1p.

D- SB 212, written testimony, Mark Huston, 3pp.

E- SB 212, Oregon Economic Development Department newsletter, Mark Huston, 4pp.

F- SB 212, Oregon Business Development Fund, selected companies, 1p.

G- SB 213, written testimony, Mark Huston, 2pp.

H- SB 14, written testimony, Mark Huston, 1p.

I- SB 214, written testimony, Warren Banks, 2pp.
