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HOUSE LEGISLATIVE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

February 15, 1991Hearing Room 343 8:00 A.M.State Capitol Salem, OR

Tapes 53 - 56 Bill Introduction - LC 2114 100 th Anniversary of the Port of Portland Capital Access Program Amendments Oregon Business Development Fund Corrections Entrepreneurial Loan Program

MEMBERS PRESENT: REP. RAY BAUM REP. JERRY BARNES REP. MARGARET CARTER REP. CEDRIC HAYDEN REP. VERA KATZ REP. DAVE MC TEAGUE REP. BOB PICKARD

MEMBERS EXCUSED:

STAFF PRESENT: JOSEPH CORTRIGHT, EXECUTIVE OFFICER TAMIRA MILLER, POLICY ANALYST JERI CHASE, OFFICE MANAGER HOLLY BROWN, COMMITTEE ASSISTANT

WITNESSES:REPRESENTATIVE MIKE BURTON, DISTRICT 17 FRANK BRAWNER, OREGON BANKERS ASSOCIATION MARK HUSTON, MANAGER, BUSINESS FINANCE SECTION, ECONOMIC DEVELOPMENT DEPARTMENT DAVE LOHMAN, SENIOR DEPUTY DIRECTOR, ECONOMIC DEVELOPMENT DEPARTMENT ROBERT ZAGUNIS, CHAIR, ECONOMIC DEVELOPMENT COMMISSION

NOTE: These minutes contain materials which paraphrases and/or summarizes statements made during this meeting. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

TAPE 53, SIDE A

000 CHAIR BAUM convenes the meeting at 8:06 a.m.

Bill Introduction - LC 2114

011 CHAIR BAUM: Introduces Draft of LC 2114 (EXHIBIT A).

013 MOTION: The CHAIR moves that LC 2114 be introduced as a committee bill.

015 REP. HAYDEN: Is this the concept that has proved somewhat controversial in labor committees in the past?

018 CHAIR BAUM: Yes it has, and it is being studied now by the chair of the Labor as being an option that is worthy of serious study.

028 REP. CARTER: The Trade Committee has worked long and hard with Bob Baugh and the business community on this issue. It is nothing that is controversial.

035 REP. HAYDEN: I have not endorsed this concept in other committees and did in fact vote against it.

038 VOTE: Hearing no objection, other than the clarification on the record, LC 2114 is introduced as a committee bill.

HCR4 (Port of Portland Commemoration) - Public Hearing and Work Session

040 REP. MIKE BURTON: The major facilities of the Port of Portland are in District 17 and this is to celebrate the 100th anniversary since the establishment of the Port. The Port of Portland is a statewide economic factor in Oregon. The success of the Port has created a lot of support for it. I would ask you to support Resolution number 4. The Port provides 17,000 jobs.

123 REP. BARNES: How do we classify the Port as a district?

130 REP. BURTON: It is a Port District.

227 MOTION: REP. KATZ moves HCR4 to the floor with a Do Pass recommendation.

VOTE: By roll call vote (7-0), HCR4, is passed to the floor with a Do Pass recommendation. Voting AYE: REPRESENTATIVES BAUM, BARNES, CARTER, HAYDEN, KATZ, MC TEAGUE and PICKARD.

Business Finance Programs

240 JOE CORTRIGHT: Presents Small Business Capital Resource Map (EXHIBIT B).

314 REP. KATZ: Have there been any banks that have been successful in focusing in baby loans?

320 CORTRIGHT: I don't think so.

344 FRANK BRAUNER: The Bank of Salem intends to concentrate on small loans.

377 REP. KATZ: In the branch banks is there a policy that those in the area of town where businesses could use those kind of small loans?

390 BRAUNER: Both First Interstate and US have a policy to address this area to the extent that they can.

403 CORTRIGHT: Continues presentation of EXHIBIT B.

TAPE 54, SIDE A

034 REP. KATZ: To what extent has sharing the issue cost been used since that program got started?

036 CORTRIGHT: One bond. Continues presentation of EXHIBIT B.

053 REP. CARTER: To date how much do we have on loan from ODF?

055 CORTRIGHT: About 8 million dollars.

058 REP. PICKARD: Is there a process of determining risk?

062 CORTRIGHT: There are several factors. One is if the business has a track record. Another is collateral.

074 CORTRIGHT: Continues presentation of EXHIBIT B.

103 REP. BARNES: Where does the concept of a business which needs an infusion of capital lie in your chart?

113 CORTRIGHT: Hopefully OBDF will be working for those businesses that want to expand but maybe don't have the collateral. The Capital Access Program was developed to reduce the risk of loans to banks. It is designed to be slightly more expensive to the borrower than the bank loan.

143 REP. BARNES: Where do risk and venture capital work into this scheme?

152 CORTRIGHT: ORTDC is pre-venture or seed capital. These institutions are very small compared to the commercial banks.

190 REP. PICKARD: The best way to move that line is?

191 CORTRIGHT: There are a number of ways. The stronger our financial institutions are, the more likely they are to move into the riskier loans.

210 REP. BARNES: Would you say we should be expanding the concept of both the business development funds and the ORTDC?

215 CORTRIGHT: I think you will want to be very selective in how you use those resources because they are so limited.

224 REP. KATZ: It seems to me that we might want to reexamine our current programs to see if we shouldn't be redistributing our funds.

242 CORTRIGHT: How many of these you can afford and where the need is greatest are important policy questions.

268 REP. BARNES: It seem we need to expand the concept to induce the private sector to become more involved.

274 REP. CARTER: Would it be feasible for us to help direct or negotiate activities with companies that have been on OBDF and are doing good into the commercial banking sector?

280 CORTRIGHT: Yes. The greatest element of risk is in the first couple of years. But once you achieve that level the risk goes down, but under the OBDF the firm has no incentive to pay that back because of the low interest rates.

300 REP. CARTER: Does a company look good to the bank after they have stabilized after the two year period of time?

314 CORTRIGHT: From the banks view those old loans that just keep paying are the best to have.

SB 171 A (Capital Access Program) - Public Hearing and Work Session

363 CORTRIGHT: Presents Staff Measure Summary on SB 171 (EXHIBIT

C).

390 BRAWNER: We have five national banks; they have 65% of the assets in the state.

416 CORTRIGHT: Continues presentation of EXHIBIT C.

447 CHAIR BAUM: The Governor purposes no additional budget for this program.

454 REP. KATZ: What kind of information is going to be required for the department?

TAPE 53, SIDE B

030 MARK HUSTON: In regards to financial information we need from the company, indepth information becomes important when the bank requests a draw on the loan loss reserve. It is our responsibility to know what the circumstances were that led to the default on a loan. We audit the banks books.

054 BRAWNER: The banks books are audited with regard to that specific covered loan.

084 BRAWNER: We assumed that any time we were entering into a partnership with a government entity that the government had the right to come in and look at those individual loans that would be covered. Plus the borrower is going to acknowledge that we have that right. To make sure that the states portion of money is not being wasted.

089 REP. KATZ: Shouldn't the banks be flagging the Department of Economic Development a little sooner that something is going wrong so there is no need to draw on the reserves.

090 BRAWNER: Each bank has a different agreement with the department and early notification is available

095 REP. KATZ: Is there a mechanism in the department that when you do get an early warning signal that you use the resources of the department to assist with the borrowers' problems?

100 HUSTON: The Small Business Development Center Networks assist the borrowers.

106 BRAWNER: The agreement that the bank has with the department calls for the bank to execute certain collection practices. We also report on a regular basis to the department. The discipline built into this program for all the players makes this program work. The bank is not going to put just any loan in because it costs the bank money. The borrow is not going to play because it costs the borrower money. The department matches what the bank and the borrower put in.

130 REP. KATZ: I want someone to help out the people who are having trouble paying the loans before the collection agency becomes involved.

145 BRAWNER: If you want early warning then just require it in the rules and that is the way it will be.

160 REP. KATZ: What mechanisms do you have to assist the small business person who has ran into trouble?

176 DAVID LOHMAN: Ideally we would want to try and help the person.

186 REP. KATZ: Do you do that now?

190 LOHMAN: We do within the Oregon Business Development Program. We don't have the resources to do all that.

196 REP. KATZ: I want to know what difficulties you are having.

200 REP. CARTER: Does this program pose a threat to you because the banking community is going to get their money any way they go?

222 HUSTON: The design of the Capital Access Program has some self governing aspects to it.

225 REP. CARTER: Why should the bank tell you there is trouble if they can go into the reserve and pay themselves?

230 HUSTON: The bank realizes that if they spend the reserve now the funds won't be there down the road if there is another default.

245 REP. CARTER: Where is the problem?

246 BRAUNER: In Michigan this program has worked wonders.

288 REP. KATZ: I like the bill, I just want to make sure we make a people judgement.

360 CHAIR BAUM: We have funding that has been waiting for two years?

365 BRAUNER: Yes, and we would hope you would continue to fund it. We will use 1.5 million this year.

371 REP. BARNES: What inducements do we need to have the banking industry really get involved?

381 BRAUNER: Because of the technical difficulty we have been delayed in starting.

405 LOHMAN: In a normal banking situation a bank works hard to make sure that loan is successful.

424 CHAIR BAUM: Are you ready to go on the program?

426 LOHMAN: Yes.

430 CHAIR BAUM: How much was in your proposal to the Governor?

436 LOHMAN: 1.3 million dollars.

TAPE 54, SIDE B

023 MOTION: REP. CARTER moves SB 171A to the floor with a DO Pass recommendation.

VOTE: By roll call vote (6-0), SB 171A passes to the floor with a Do Pass recommendation. Voting AYE: REPRESENTATIVES BAUM, BARNES, CARTER, HAYDEN, KATZ, and PICKARD. EXCUSED: REPRESENTATIVE MC TEAGUE

040 CHAIR BAUM: Recesses the meeting at 9:35 am.

049 CHAIR BAUM: Reconvenes the meeting at 9:50 am.

HB 2338 (Oregon Business Development Fund Corrections) - Public Hearing

052 CORTRIGHT: Presents Staff Measure Summary on HB 2338 (EXHIBIT D).
Submits Program Evaluation for the Oregon Business Development Fund
(EXHIBIT E).

100 REP. CARTER: How do we keep subjectivity out of it?

101 CORTRIGHT: In the loan agreement there would be some specification
of some objectives that the company expected to reach as it grew. This
provision would give the committee the authority to determine whether or
not those objectives had been met.

128 REP. CARTER: If this bill is passed then it will replace the
present bill that is in statute?

132 CORTRIGHT: No, This bill restores the changes that the 1989
legislature passed.

174 REP. CARTER: How do we renew our intent with this bill?

191 CORTRIGHT: The rationale for the changes come from the program
evaluation by committee staff. The rationale for the changes are to take
advantage of low self interest rates and to provide more incentive for
people to pay back loans.

275 HUSTON: Submits "Highlights of the Oregon Business Development
Fund" (EXHIBIT F) and list of members of the Economic Development
Commission (EXHIBIT G).

285 ROBERT ZAGUNIS: OBDP is for job creation. The flexibility that we
have been given have helped us do our job. The change on the maximum
maturity on the loan is fine. Increasing the floor rate is an adjustment
that will not affect seriously any program. Increasing the floor on the
rate does take away from the program and the Finance Committee suggests
that you do not make this change. Further we would like to recommend an
interest rate cap of 10% on the program. Repricing the loans to market
rates is concerning. The program is not meant to compete with private
financial institutions.

445 REP. HAYDEN: How long could a bank survive without making any
new loans?

450 ZAGUNIS: They can survive for a long time because there is
alternative places that money can go, like investments.

TAPE 55, SIDE A

040 ZAGUNIS: We would recommend you not change the interest rate.

056 REP. CARTER: I have problems with the 10% cap. Why shouldn't we
want them to seek a state loan? Do we have banks that get into the
market place and become a viable entity?

077 ZAGUNIS: The loans for the smaller businesses get paid down and it

becomes less and less a factor to the company. Also there is a commercial bank involved with the company from the first day that we are involved in it. If rates go up economic expansion dries up, the cap is to make sure the program remains viable.

100 REP. CARTER: Are you making a strong relationship between interest rates going up and businesses not doing well?

105 ZAGUNIS: There is a correlation that as interest rates go up small businesses will not tend to get into business.

107 REP. CARTER: So if they are already in business they are barely maintaining, a higher interest rate will create problems for them?

110 ZAGUNIS: That is possible. If the time comes and the maturity is there the Finance Committee may extend the finance of the loan.

114 REP. CARTER: If you did not have a 10% cap would you not have that possibility with this language that is in the bill now?

115 ZAGUNIS: No, I think the 10% cap is protection in the case that rates go up significantly that the cap takes effect.

121 REP. CARTER: Is there protection in this bill for OEDD in case they are prevailed upon by higher interest rates?

125 CORTRIGHT: The prime rate is a short term variable rate, the treasury rate is a long term fixed rate. So that while they move in the same direction the prime rate will fluctuate more.

149 REP. BARNES: You feel you have enough flexibility now, but this would reduce your flexibility in encouraging new business start ups?

151 ZAGUNIS: Yes.

192 REP. KATZ: Do the recommendations in this bill reflect the recommendations from this report?

199 CORTRIGHT: The text in the bill now is identical to the text that passed the committee in the form of SB 313 and that was later amended into 314.

246 REP. KATZ: If this had not had an AG's opinion, had this been in statutes, had you been operating on this would you come back and say there was a mistake and some changes need to be made?

250 LOHMAN: We have had this position consistently and had the changes been made I believe we would be coming back asking for a change on the call provision.

257 REP. KATZ: Did you make a request to the Governor to veto the bill?

260 LOHMAN: The way the bill was presented it got packaged with some others that we didn't feel should be vetoed.

262 REP. CARTER: Do you feel that OEDD actually made loans that businesses that could not otherwise get loans from the banking community?

264 LOHMAN: No we don't feel we are supplanting loans that banks could otherwise make.

268 HUSTON: We are providing funds for what is most difficult to finance.

316 REP. CARTER: What kind of results are you getting on job creation on this? Have you been able to target small businesses?

329 LOHMAN: This program was set up to target specific industries.

354 HUSTON: We ask a company to project how many jobs they would create. Companies projected 2,000 jobs would be either saved or created and 80% of the projected jobs were created.

416 CHAIR BAUM: Have you kept track of the number of emerging small enterprises?

TAPE 56, SIDE A

011 HUSTON: Yes. 21% of the loans have been made to emerging small enterprises. We are a little bit less than the 15% but a number of applications have come in to bring that up.

026 CHAIR BAUM: Is there any hope of targeting these monies at depressed areas of the state?

035 HUSTON: Approximately two thirds of our loans are targeted at rural areas of the state. We look for as many of those opportunities as we can.

058 CHAIR BAUM: Can we legitimately raise the percentage and focus the program in those areas and spend those dollars wisely?

062 HUSTON: We will always try to give money in distressed area of the state.

072 LOHMAN: This program is not refunded in the Governors budget, we are not here arguing for additional funding. We are arguing about how it operates.

094 LOHMAN: The fact that two thirds of the loans are going to rural areas tells you that if you put aside more money the funds would still go to rural areas.

100 REP. BARNES: Would it be more beneficial if there was a special fund set up to deal with these economically distressed areas?

111 LOHMAN: We could run a program like that.

210 REP. BARNES: We need to take more risk to get these communities on their feet.

229 HUSTON: Presents testimony on Senate Bill HB 2338 (EXHIBIT H).

Public Hearings on HB 2340

349 CORTRIGHT: Presents Staff Measure Summary on HB 2340 (EXHIBIT I).

399 HUSTON: Submits testimony on Senate Bill HB 2340 (EXHIBIT J).

TAPE 55, SIDE B

060 CHAIR BAUM adjourns the meeting at 11:17 am.

Submitted by,

Jeri Chase Office Manager

EXHIBIT SUMMARY

EXHIBIT A - Draft for LC 2114, submitted by Joe Cortright, pgs. 6.

EXHIBIT B - "Small Business Capital Resource Map," submitted by Joe Cortright, pgs. 1.

EXHIBIT C - Staff Measure Summary for SB 171A, submitted by Joe Cortright, pgs. 2.

EXHIBIT D - Staff Measure Summary on HB 2338, submitted by Joe Cortright, pgs. 2.

EXHIBIT E - "Program Evaluation: Oregon Business Development Fund," submitted by Joe Cortright, pgs. 104.

EXHIBIT F - "Highlights of the Oregon Business Development Fund," submitted by Mark Huston, pgs. 1.

EXHIBIT G - List of members of the Economic Development Commission, submitted by Mark Huston, pgs. 1.

EXHIBIT H - Testimony on Senate Bill HB 2338, submitted by Mark Huston, pgs. 5.

EXHIBIT I - Staff Measure Summary on HB 2340, submitted by Joe Cortright, pgs. 1.

EXHIBIT J - Testimony on Senate Bill HB 2340, submitted by Mark Huston, pgs. 5.