

HOUSE LEGISLATIVE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

March 6, 1991Hearing Room 343 8:00 A.M.State Capitol Salem, OR

Tapes 79 - 82

Community Colleges Budget Entrepreneurial Loan Program Oregon Business
Development Fund Modifications

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:DAVID LOHMAN, SENIOR DEPUTY DIRECTOR, ECONOMIC DEVELOPMENT
DEPARTMENT TOM FULLER, ADMINISTRATOR, BUSINESS RESOURCES DIVISION,
ECONOMIC DEVELOPMENT DEPARTMENT MARK HUSTON, MANAGE, BUSINESS FINANCE
SECTION, ECONOMIC DEVELOPMENT DEPARTMENT BARUTI ARTHAREE, PRESIDENT
COAST INDUSTRIES BOB BAILEY, COMMERCIAL NINTH RON LOW, WOOD CASTLE HENRY
SCOTT, COAST INDUSTRIES MIKE HOLLAND, STATE COMMISSIONER, COMMUNITY
COLLEGES EUGENE ORGAN, EXECUTIVE DIRECTOR, OREGON DISABILITIES
COMMISSION RUTH KAHN, SMALL BUSINESS DEVELOPMENT CENTER NETWORK

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 79, SIDE A

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

HB 2338 (Oregon Business Development Fund) - Public Hearing and Work
Session

005 CORTRIGHT: Presents Staff Measure Summary on HB 2338 (EXHIBIT
A).

027 TOM FULLER: Presents "Issues: Oregon Business Development Fund"
(EXHIBIT B). Submits "Highlights of the Oregon Business Development
Fund," (EXHIBIT C).

078 LOHMAN: You may want to consider leaving interest rates lower
for emerging small businesses.

095 CORTRIGHT: What if you were to set the interest rate for the portfolio?

101 FULLER: All loans are not fixed at the same rate, this would raise the administrative costs because many adjustments would be needed.

113 CHAIR BAUM: What if we had a provision that would allow 1% less than the Treasury rate for the emerging small businesses?

118 FULLER: That is an option that we think would make sense.

128 REP. HAYDEN: Why would the state government charge 1% which is more than the federal government to loan the money that it uses?

130 CORTRIGHT: A t-bill rate is the rate at which the federal government borrows money. That is an index which sets the rate that the most credit worthy borrower can borrow.

135 REP. BARNES: How does this affect the risk involved in the loan?

143 FULLER: All of these loans are risky, it will increase the risk to the borrower.

157 REP. KATZ: Do we have any guide lines for small emerging businesses so that if we do want to set the rate we can keep track of when the interest rate will drop?

164 FULLER: We would define emerging small businesses as those that are so certified by the state.

168 MARK HUSTON: Emerging small businesses are defined in statutes.

174 REP. CARTER: Maybe when these businesses become more stable we should raise their interest rates to encourage them to pay back their loan.

212 REP. KATZ: If a business is doing well and can afford to pay an increase do you see any problem with them doing that?

228 FULLER: All loans do not go to the maximum 20 years. There may be a problem putting that type of renegotiation into a binding contract. Increased rates take more cash flow. These businesses have been growing and increasing the rates may keep the business from going forward. When the loan is closed we could put a provision in the loan agreement that says upon the discretion of the Finance Committee the rate can be increased from 1% to 3% over the treasury rate. That would give the department flexibility.

277 REP. KATZ: Either you have no flexibility and just decide that at the mid term of the loan it increases X percentage above the T-bill rate or that happens but in addition to that you have some flexibility to review it and maybe maintain the interest rate that was given to them when they borrowed the money.

286 REP. BARNES: I have a problem with telling these businesses that we may kick up their interest because it may come at a time when the business is ready to move up to another level. The state will recapture much more by having the business expand and progress.

320 REP. CARTER: I think you are being benevolent toward small business. The issue is them being able to pay back their loans in a timely manner.

348 CHAIR BAUM: There is a flexibility here that would allow the Loan Board to raise the percentage if they felt that it was a good time to do that.

367 FULLER: One other point is that some of our businesses that are growing and doing well do obtain additional bank financing and since the Oregon Business Development Fund typically takes as much collateral as we can get to meet our collateral requirements it has happened that we are paid off by the bank that wants to provide the additional financing.

379 CHAIR BAUM: If you raise the interest rate how much more would that be in dollars?

389 HUSTON: \$1,000 a year.

410 REP. HAYDEN: We are talking about a variable interest rate.

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016 CORTRIGHT: The OBDF would not be a true variable rate. It would be a 2 step fixed rate.

025 REP. BARNES: Have you taken a 10 year note and amortized it as if it were a 20 year note in the past?

031 FULLER: Yes, in fact in several occasions the bank involved has done the same thing. That is one technique that the finance office has been using.

033 REP. BARNES: Do you look at a higher rate of interest at that time, if they have been relatively successful?

037 FULLER: At the time that we renegotiate the rate we would set it at the prevailing rate.

039 REP. BARNES: That might be a way to give you some flexibility when this note becomes due and the business owner has to refinance you could up the rates on how they were doing.

050 MOTION: The CHAIR moves that the committee adopt an amendment in concept that states that the Emerging Small Businesses interest rate be at 1% below the treasury rate, and that the businesses that don't qualify for 1% obtain an interest rate that is 2 clicks above the 1%.

VOTE: Being no objections the amendment above is adopted in concept.

059 MOTION: The CHAIR moves that the committee adopt an amendment in concept that states that the maximum loan term be reduced to 20 years.

060 DAVID LOHMAN: We don't have a problem with that because we don't have any loans currently that go over that period of time.

062 VOTE: Being no objections the amendment above is adopted in concept.

066 CHAIR BAUM: Do we want to allow businesses in other categories than

small business to have their loan rate increased by the board?

070 FULLER: We feel having a fixed rate throughout the term is preferable.

087 REP. CARTER: What are the politics of this?

090 FULLER: The chair is likely to receive calls encouraging the bank to leave the rate where it is.

098 CHAIR BAUM: Are you afraid that if you have the option to raise the rate people will call you and tell you not to raise the rates?

100 FULLER: Yes. We just want you to be aware that this is a potential problem.

121 LOHMAN: The finance committee is made up from volunteers from the private sector. It is a burden on them and this would create more of a burden.

141 LOHMAN: Our position is that the renegotiation half way through is not the best way to do this.

150 CHAIR BAUM: We have talked about a rate that was fixed at 2 clicks more but still that subjective decision is made by the Finance Board on whether the business is able to sustain this and still be productive. Can you put that in terminology that will make it stick and be enforceable?

158 LOHMAN: That is not unworkable but is not preferable.

163 REP. PICKARD: Bankers do not want to be flexible.

193 BARUTI ARTHAREE: Testifies in support of OBDF program.

321 BOB BAILEY: Testifies in support of the OBDF.

TAPE 79, SIDE B

033 BAILEY: Continues testimony in favor of OBDF.

042 RON LOW: Testifies in support of OBDF. I think more programs that get this type of return on investment should be created.

082 HENRY SCOTT: Testifies in support of the OBDF.

105 REP. CARTER: Is there a problem refinancing for a new business?

120 BAILEY: When we go to the bank we have a plan and if we know that the interest rate is going to go up we would borrow more money in the beginning. The problem is that every time we add in an increase it makes the package less attractive for the banks. I recommend you go with a flat rate.

184 ARTHAREE: For a lot of small businesses the problem is access to cash and one or two points is not going to make you or break you. As for a change in interest half way through we already have so many variables that any that we can eliminate is helpful. It would be beneficial to keep the rate the same.

294 REP. BARNES: I agree that you want to minimize variables, but how predictable is it for you to forecast your ability to pay back your loans.

307 ARTHAREE: We have to forecast cash flow. Capital reinvestment is important. At the time that we got this loan we would not have left this offer if we had known that the interest rate was going to increase.

372 REP. PICKARD: Wouldn't a business man find ways to change his profit picture so it was less likely that they will have to pay at an increased rate?

384 BAILEY: Yes. I wouldn't want to have a bill that says we have to negotiate the interest rate in the middle. If you want to have a fixed increase in the middle fine.

013 REP. CARTER: I think we should give incentive. If they pay their loan back so many years ahead of time then let them buy the loan back cheap.

019 CHAIR BAUM: I think we ought to let the program run for a couple of years with the amendments we now have and not deal with renegotiating the interest rate.

041 CHAIR BAUM: What do you think of the incentive idea?

045 BAILEY: I think that is a good idea.

049 REP. BARNES: I think the incentive idea is a good one.

077 FULLER: I think the incentive idea is very good.

088 REP. KATZ: I would like this incentive program to be tied to the creation of jobs.

100 FULLER: We can do that.

114 CHAIR BAUM: We could insert one amendment to involve incentive and another that includes a job creation requirement.

178 LOHMAN: Submits "Oregon Economic Development Department Response to the Trade and Economic Development Committee Staff Evaluation of the Oregon Business Development Fund (EXHIBIT D).

HB 5010 (Community College Appropriation) - Public Hearing and Work Session

200 TAMI MILLER: Presents Staff Measure Summary on HB 5010 (EXHIBIT E). Presents -1 amendments to HB 5010 (EXHIBIT F).

248 MIKE HOLLAND: Those amendments are fine.

297 REP. CARTER: We are forcing people into community colleges and not providing the community colleges the ability to deal with all these people.

321 REP. PICKARD: How much money was given to community colleges by the legislature in the 1987 and 198 9?

335 HOLLAND: In 1987 \$8.5 million was appropriated for construction and in 1989 \$2.5 million for grant and aid budgets.

345 REP. PICKARD: I agree with Representative Carter that we get more for our dollar out of community colleges than we do any other program in the state.

356 REP. KATZ: Do you still want to stay on the track you're on in light of some of the additional pressures on the colleges now?

370 HOLLAND: Currently community colleges have 59,000 full time enrollment (FTE). Community colleges will be serving 43,000 FTE next year. Community Colleges are the biggest providers of many educational services and we need to figure out how to fund these services

417 REP. HAYDEN: How does that compare to private vocational schools?

425 HOLLAND: They don't compare in the number of people they serve.

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019 MOTION: REP. HAYDEN moves the -1 amendments, dated 2/11/91, to HB 5010 be adopted.

VOTE: Being no objections the -1 amendments, dated 2/11/91, to HB 5010 are adopted.

MOTION: REP. BARNES moves HB 5010 as amended by the -1 amendments to Ways and Means with a Do Pass recommendation.

VOTE: By roll call vote (5-0), HB 5010, as amended by the -1 amendments, moves to Ways and Means with a Do Pass recommendation.
Voting AYE: REPRESENTATIVES BARNES, CARTER, HAYDEN, PICKARD and BAUM.
EXCUSED: REPRESENTATIVES KATZ and MC TEAGUE.

033 CHAIR BAUM recesses the meeting at 10:03 am.

035 CHAIR BAUM reconvenes the meeting at 10:37 am.

HB 2340 (Entrepreneurial Loan Program) - Public Hearing and Work Session

041 CORTRIGHT: Presents Staff Measure Summary on HB 2340 (EXHIBIT G).

047 EUGENE ORGAN: Present testimony in favor of HB 2340 (EXHIBIT H).

112 REP. CARTER: I don't think this bill is any less inclusive than any other bill we have produced.

122 RUTH KAHN: I would like to discuss line 19 on page one. The small business development centers do not have the staff or qualifications to approve business plans.

143 REP. PICKARD: Would it help to delete the words "and approved" on lines 18 and 19.

150 KAHN: Yes.

155 KAHN: On the second page line 10 isn't \$5,000 a low figure?

158 REP. BARNES: We noted it was too low.

163 CORTRIGHT: On page 2 line 10 there is a \$5,000 amount and on line 20 there is a \$10,000 amount. The program that this is patterned after is one which allows you to borrow an initial amount of money and if you are successful you can borrow a larger amount of money so you may want to change line 20 as well.

179 REP. CARTER: The whole reason we have been looking a baby loans is because banks won't look at this small of a loan. I am for this amount staying right where it is.

182 REP. BARNES: 5,000 dollars doesn't amount to much. I would like to see us increase it.

190 LOHMAN: The Small Business Development Center is pretty stretched right now. I would say try it without additional resources right now.

220 LOHMAN: The money from the loans would come from the Economic Development Department. SPCD is a contracted agency. Assuming they got the budget they would have the funds to do management training but maybe there would be people backed up.

239 CHAIR BAUM: Where would the loan money come from?

243 LOHMAN: It would come from the lottery budget so it would be put in the Economic Development fund which we would oversee it. The concept is that these beginning enterprises probably should go through training programs before they get state money.

252 CHAIR BAUM: Did you request money from Governor Goldschmidt and how much?

260 LOHMAN: Yes, we asked for something similar to this, \$1 million, and it got dropped in the executive budget process.

266 REP. PICKARD: How do you feel about the numbers in this bill?

274 LOHMAN: We would say they should have \$10,000 for the initial loan with a life time maximum of \$15,000 for these baby loans.

282 REP. CARTER: Have you noticed that handicap have wanted to get into their own small businesses and have had problems?

287 ORGAN: Yes. The people with disabilities tend to be very low income and the loan process in very frequently closed to them for that reason. \$10,000 dollars would be a more realistic number.

310 REP. CARTER: Why do we need this bill if you are already making loans to people for all sorts of amounts?

314 LOHMAN: This bill doesn't require participation of a bank, it has relaxed collateral requirements, it makes it much easier to make a loan but it is also more risky.

329 REP. CARTER: Why can't you do this through OBDF?

330 LOHMAN: Because of the statutory provisions in OBDF for

participation by banks and good and sufficient collateral.

339 MOTION: REP. CARTER moves in concept that HB 2340 be amended to add a representative of the disabled community to the Entrepreneurial Development Loan Fund Advisory Committee and the addition of a subsection (d) which states the business is (applicant is) owned in whole or in part by a person certified as being severely disabled by the Vocational Rehabilitation Division or the Commission for the Blind.

382 REP. BARNES: You might want to change a word there. It says the applicant is owned and I think that Mr. Organ meant business.

385 ORGAN: Using the word business would be fine.

394 VOTE: Being no objections the amendments above are adopted.

413 MOTION: REP. CARTER moves that the dollar amounts in lines 10 and 20 be changed to \$10,000 and \$15,000 respectively.

VOTE: Being no objections the amendments above are adopted.

430 LOHMAN: You might want a cash match to be sure the applicants are serious.

006 VICE CHAIR CARTER: This proposal calls for the applicant to have at least a matching 20% to receive loan funds.

010 REP. BARNES: Would that be business assets?

014 LOHMAN: Yes.

016 KAHN: Do you need to take out the wording on the first page regarding the Small Business Development Center Network approving business plans?

020 VICE CHAIR CARTER: Yes we will do that.

021 LOHMAN: You may need to delete the word certified below that as well.

022 REP. CARTER: We need to delete the word on line 21 of section 2 subsection (c) certified and line 19 and approved.

038 MOTION: REP. PICKARD moves in concept to amend the bill to delete the word "and" at the end of line 18 and the word "approved" on line 19, and on line 21 to delete the word "certified".

VOTE: Being no objections the amendments above are adopted in concept.

049 CORTRIGHT: On the top of page 2 it says that the applicant must not be owned in whole or in part by another business entity that either by itself or when combined with the applicant is not eligible for a loan under this act. That language is meant to prevent someone who might qualify under the stipulation of this from being a front to qualify for the loan. That provision doesn't belong in subsection 2 it belongs in subsection 1 of section 2.

064 MOTION: REP. BARNES moves to remove from section 2 the language that states the business must not be owned in whole or in part by another business entity that either by itself or when combined with the

applicant is not eligible for a loan under this act and insert it in sub section 1 of section 2.

VOTE: Being no objections the amendments above are adopted.

100 REP. CARTER: I would like to see Mr. Lohman, Mr. Organ, Staff and Rep. Barnes get together and discuss amendments.

107 VICE CHAIR CARTER adjourns the meeting at 11:14 am.

Submitted by,

Jeri Chase Office Manager

EXHIBIT SUMMARY

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

EXHIBIT B - "Issues: Oregon Business Development Fund," submitted by Tom Fuller, pgs 1.

EXHIBIT C - "Highlights of the Oregon Business Development Fund," submitted by Tom Fuller pgs. 1.

EXHIBIT D - "Oregon Economic Development Department Response to the Trade and Economic Development Committee Staff Evaluation of the Oregon Business Development Fund," submitted by David Lohman, pgs. 6.

EXHIBIT E - Staff Measure Summary on HB 5010, submitted by Tami Miller, pgs. 2.

EXHIBIT F - -1 amendments to HB 5010, submitted by Tami Miller, pgs. 1.

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

EXHIBIT H - Testimony in favor of HB 2340, submitted by Eugene Organ, pgs. 3.