

HOUSE LEGISLATIVE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

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

Tapes 94 - 97 Entrepreneurial Loan Fund Oregon Business Development Fund Lottery Percentage Distribution

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

MEMBERS EXCUSED:REP. DAVID MC TEAGUE

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

WITNESSES:MARK HUSTON, MANAGER, BUSINESS FINANCE SECTION, ECONOMIC DEVELOPMENT DEPARTMENT TOM FULLER, ADMINISTRATOR, BUSINESS RESOURCES DIVISION, ECONOMIC DEVELOPMENT DEPARTMENT EUGENE ORGAN, EXECUTIVE DIRECTOR, OREGON DISABILITIES COMMISSION DAVID LOHMAN, SENIOR DEPUTY DIRECTOR, ECONOMIC DEVELOPMENT DEPARTMENT JIM DAVEY, LOTTERY COMMISSION PAUL WARNER, STATE ECONOMIST, EXECUTIVE DEPARTMENT DAVID GRIFFITHS, SENIOR ECONOMIST, EXECUTIVE DEPARTMENT STEVE BENDER, ECONOMIST, LEGISLATIVE REVENUE

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 94, SIDE A

000 CHAIR BAUM convenes the meeting at 8:05 a.m.

HB 2340 (Entrepreneurial Loan Program) - Work Session

008 CORTRIGHT: Presents overview of the -1 Amendments to HB 2340 (EXHIBIT A) and Hand Engrossed HB 2340 (EXHIBIT B)

089 REP. KATZ: This can be used for any purpose?

093 CORTRIGHT: Yes. Continues EXHIBIT A.

120 CHAIR BAUM: I think we should have a cap on usury rates but I guess that is difficult to do.

150 CORTRIGHT: Continues EXHIBIT A.

165 CORTRIGHT: The maximum term of any loan is one year, but you could qualify for up to a six month extension.

186 CHAIR BAUM: I don't know of any business that can pay back a
\$15,000 loan in a year.

195 MARK HUSTON: Our recommendation is a maximum of 5 years.

200 CHAIR BAUM: If it was one year at 21% interest in paying back a
\$10,000 dollar loan the pay back would be \$1,000 a month.

205 REP. BARNES: Submits "Amendments to HB 2340" (EXHIBIT C).

212 HUSTON: The department could establish the term based on what the
business required and what their projections were as far as cash flow.

219 MOTION: REP. CARTER moves to amend the bill on page 2, line 11,
to delete "exceeding 1 year" and insert "exceeding 5 years".

VOTE: Being no objection the above amendment is adopted.

229 HUSTON: We recommend a lower interest rate.

237 TOM FULLER: We had intended to tie it to bank card rates which
people use for start up capital. The average rate on cards in other
states is 18%.

259 CORTRIGHT: The rationale for 21% is that there is a very small
demand for this type of loan. By charging a lower amount than the other
institutes then people will come to you because you are cheaper not
because they really can only get this type of loan.

299 REP. BARNES: I would opt to give those who want these loans the
benefit of the doubt and go below the market rate.

314 CHAIR BAUM: You want the 18%.

350 MOTION: REP. BARNES moves to amend page 2, line 12, of the bill to
fill in the blank with 18%.

VOTE: Being no objections the above amendment is adopted.

376 CORTRIGHT: If a business gets into some trouble in repaying a loan
it is helpful to have the flexibility to say we will let you defer the
repayment for a period of time.

381 MOTION: REP. CARTER moves to insert in the blank space on page 2,
line 14, 6 months.

VOTE: Being no objections the above amendment is adopted.

394 MOTION: REP. BARNES moves to amend page 2, line 10, to replace
"\$5,000" with "\$10,000" and in line 20 to replace "\$10,000" with
"\$15,000".

VOTE: Being no objection the above amendment is adopted.

MOTION: REP. HAYDEN moves to add a person to the Advisory Committee and
that a member of the committee be a representative of Disabled
Oregonians.

400 MOTION: REP. BARNES moves a friendly amendment to add in the
advisory committee shall also include a representative of Disabled

Oregonians.

406 CHAIR BAUM: The friendly amendment is so noted.

408 VOTE: Being no objections the above amendment is adopted.

414 REP. HAYDEN: I am unhappy with the syntax of my amendment.

434 CORTRIGHT: Lines 26 -27 would read "The Advisory Committee shall include at least one owner or operator of a small business who is woman or a member of a minority group. The Advisory Committee shall also include at least on person who is a representative of Disabled Oregonians.

TAPE 95, SIDE A

025 CHAIR BAUM: I think that the amendments on lines 1 thru 8 on page 1 (EXHIBIT A) should be without any objection.

031 MOTION: REP. CARTER moves that on line 21, page 1, the word "certified" be removed from the bill.

VOTE: Being no objection the above amendment is adopted.

037 CORTRIGHT: Lines 4 thru 8 on the -1 amendments correct the reference to the word and add a new Sub d to Subsection 1 of Section 2 providing that the applicant be not owned in whole and part by another business.

045 MOTION: REP. CARTER moves lines 4 thru 8 of the -1 amendments be adopted.

VOTE: Being no objections the above amendments are adopted.

050 CORTRIGHT: Lines 9 thru 14 fill in a couple of blanks and add one more provision about who is eligible.

058 REP. BARNES: I think 12 months is an inadequate period of time.

MOTION: REP. BARNES moves to insert "15 months" in the blank on page 1, line 27.

VOTE: Being no objections the above amendment is adopted.

077 CHAIR BAUM: \$25,000 strikes me as low on line 28, page 1.

078 FULLER: We suggest you increase that to \$50,000 and substitute revenue for sales.

MOTION: The CHAIR moves to insert "\$50,000" on line 28, page 1.

VOTE: Being no objections the above amendment is adopted.

MOTION: REP. BARNES moves that on line 29, page 1, "sales" be replaced with "revenues".

VOTE: Being no objections the above amendment is adopted.

090 MOTION: REP. CARTER moves to insert in subsection 2, section 2 of the bill "(c) The business is owned in whole or in part by a person

certified as being severely disabled by the Vocational Rehabilitation Division of the Department of Human Resources or the Commission for the Blind."

103 FULLER: Would that mean that a business that would qualify under section c would not have to be a start up business?

105 CORTRIGHT: The way the bill reads now you could qualify solely on that basis without having to meet any other requirements.

113 REP. CARTER: We want that money for start ups.

119 CORTRIGHT: You might be able to address this in part by changing on line 24 of the printed bill "satisfy one of the following conditions" to "satisfy 2 of the following conditions".

126 EUGENE ORGAN: Our intention is to use the money for start up businesses as well. That change would be fine.

MOTION: REP. KATZ moves to amend line 24, to delete "one" and insert "two" and add in the provisions on lines 12 thru 14 of the proposed amendments.

VOTE: Being no objections the above amendments are adopted.

133 REP. KATZ: The wording in whole or in part, does that mean you can have two ownerships, one person is disabled and one is not.

140 ORGAN: We were thinking about businesses owned by couples where on spouse is disabled and the other is not.

147 REP. KATZ: I have seen abuses with this type wording.

155 ORGAN: This is a \$10,000 dollar loan and will probably not create businesses but help those that are already established.

165 MOTION: REP. CARTER moves on page 2, line 5 to delete "and" and in line 8, to insert "; and".

VOTE: Being no objection the above amendments are adopted.

175 MOTION: REP. CARTER moves to insert after line 8 "(c) The applicant provides funds for the project in the form of cash, property or business equity in an amount equal to 20 percent of the amount to be loaned by the department."

182 FULLER: The departments position is that there should be an equity contribution and 20% seems to be a fair and reasonable number.

VOTE: Being no objection the above amendments are adopted.

190 HUSTON: The department would like to clarify something on the section about collateral. We read this as the department would have the ability to take collateral. That could be construed to read that they would provide us with projections and a business plan that would give us reassurance of repayment it could also be construed that some items would not be collateral.

206 REP. BARNES: You are trying to get equity and collateral on one

side yet you want to charge a higher rate of interest for an unsecured personal loan.

211 FULLER: On line 12 I thought it was reinstated that the rate of interest does not exceed 18% per annum.

216 CORTRIGHT: Your amendments deleted lines 21 thru 24 of the -1 amendments and filled in the blank of the printed bill.

231 FULLER: A company may choose to pledge collateral as their 20% equity contribution. The department's opinion is that it is prudent to be able to have a security interest in the collateral pledged for their equity.

263 CORTRIGHT: Section 6 directs the Economic Development Department to work closely with regional and community based economic development organizations and contains some language that directs the department to delegate the administration of the program to these groups.

278 FULLER: On line 36 in Section 6 and on line 43 and line 4, page 3, it states that the department shall do certain things. We suggest that to stay consistent with Section 1 that that be amended to say may.

314 CORTRIGHT: One is over arching and the other two deal with the specific elements of the contracting our itself.

336 MOTION: REP. PICKARD moves to adopt the changing of the word "shall" to "may" on page 2, line 36 and 43 and on page 3, line 4.

VOTE: Being no objections the above amendments are adopted.

368 FULLER: Page 2, line 17, would prohibit any business that had been in operation for more than 15 months and decided they needed some additional working capital. Further more, it would be difficult for us to make these loans to some of the businesses that may need additional working capital during their term of that first loan. We would recommend that sentence be deleted.

MOTION: REP. BARNES moves to delete the sentence starting with "The applicant" on line 17 through "interest" on line 19 on page 2.

VOTE: Being no objections the above amendment is adopted.

405 FULLER: We would like to purpose that certain kinds of loans be left up to the Advisory Committee as to whether they should be included or not. We think that the Advisory Committee should be allowed exclude certain businesses from the loan. We also assume that it not the intent of the committee to have the spouse of a very wealthy person have access to these kinds of loans.

446 HUSTON: We just want it on the record.

453 REP. PICKARD: I would rather we didn't write that into the bill but allowed the department to use their own judgement.

TAPE 94, SIDE B

HB 2338 (Oregon Business Development Funds Modifications) - Work Session

050 CORTRIGHT: Presents Proposed amendments to HB 2338 (EXHIBIT D).

100 CHAIR BAUM: We need to discuss the amount of the principle discount.

105 REP. CARTER: I would like for the amount of the principle discount to not be a set number but to give that discretion to the department.

114 DAVID LOHMAN: I think 10% is too high. Up to 7% is recommendable.

132 CORTRIGHT: You need to recognize that you are making these loans at below market interest rates. A 7% discount may not be a huge incentive to a firm to pay off early. If you are talking about a typical OBDP loan that is a 10 year term, then you tie up that money for 10 years at a below market interest rate what you finally get back when the loan is completely repaid is worth less than 7% less than what it was worth mid way through the course of the loan.

167 MOTION: REP. CARTER moves 10% for the principle discount.

171 REP. HAYDEN: How can you tell each business they will get a different percentage discount?

175 CHAIR BAUM: It would depend on job creation and the terms of the loan. We are giving them a good deal.

190 LOHMAN: We don't want to vary this per business but set this by administrative rule. We would like the flexibility to change the percentage after we see how it works.

202 REP. HAYDEN: So this is time based not business based?

205 CHAIR BAUM: Yes.

209 CORTRIGHT: This discount would modify the existing statute and it is possible that the loans that are now outstanding could be subject to this discount provision.

220 HUSTON: We would like to make it a point in time when the discount would be offered.

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

250 MOTION: REP. CARTER moves the amendments prepared by staff (EXHIBIT D) to HB 233 8.

VOTE: Being no objections the staff prepared amendments to HB 2338 are adopted.

259 CHAIR BAUM recesses the meeting at 9:23 am.

260 CHAIR BAUM reconvenes the meeting at 9:45 am.

264 CHAIR BAUM: Announces schedule changes.

HB 2341 (Lottery Percentage Distribution) - Public Hearing

280 CORTRIGHT: Staff Measure Summary on HB 2341 (EXHIBIT E).

TAPE 95, SIDE B

021 CORTRIGHT: Continues presentation of EXHIBIT E.

033 CORTRIGHT: Overhead presentation.

095 REP. KATZ: I am making a formal request for information on a question you asked in 1989. The question was, "Thinking now of the Oregon lottery games which of the following best describes your behavior after sports action was introduced?"

144 JIM DAVEY: Presents "Economic Development Transfers Made" (EXHIBIT F). In '86 we changed the games and went to a million dollar guarantee and a turn around took place. Our mission at the lottery is to sell as many tickets as we can to transfer money to economic development.

251 REP. KATZ: Is it the frequency of winning or the amount of winning?

255 DAVEY: It is both. But the frequency is important. We need to sell the idea of winning not the idea that this is entertainment.

282 CHAIR BAUM: How high is the payout on the video poker machines?

287 DAVEY: In South Dakota it averages 90%.

330 REP. HAYDEN: Is this a social problem?

353 DAVEY: We haven't heard about anything like that but we are developing a report on that now.

406 PAUL WARNER: We have moved to a system where we have more open in terms of the consensus of the forecast. The evidence we have looked at on elasticity has been inconclusive.

TAPE 96, SIDE A

028 DAVID GRIFFITHS: Presents Lottery Analysis (EXHIBIT G).

074 GRIFFITHS: The question is what happens to the sales if we change pay out rates across time?

097 WARNER: We cannot conclude that because the prize rate rose and sales did not respond and that the change in the pay out rate was the reason.

102 CHAIR BAUM: What is your conclusion?

106 GRIFFITHS: My best estimate is between .5 and 2. There is still the possibility that there could be a net wash. The net effect would still be approximately \$96 million.

117 CHAIR BAUM: It is interesting that the lottery commission takes the same 16% no matter how the lottery does.

137 REP. HAYDEN: Is this a common economic tool that would apply to any kind of product?

137 GRIFFITHS: Yes.

152 REP. PICKARD: Did we get all the numbers?

157 GRIFFITHS: There is one your missing. Different contests have different prize sensitivities and different elasticities. Some specific contest may suffer more given a move to a certain average pay out rate than other contests.

222 CORTRIGHT: The modeling has been done just with respect to a couple of games so we really don't know anything about the elasticity of the other games.

233 WARNER: Even if we did have that detailed analysis the games are a little different in each state. So there is not a homogenous product that we can compare.

235 CORTRIGHT: So all we have are the 1986 - 1987 analysis of the history of 16 states with regard to the lotto and numbers games and not more recent history on the wider range of products.

243 CHAIR BAUM: I an intent on setting a fixed amount for administration. I want to see a line item budget before I let this bill go.

265 DAVEY: When we receive money it generates interest and when we transfer money to economic development we pay them 34% of the interest earned on the account.

278 CHAIR BAUM: Where does that interest go?

283 DAVEY: We pay 34% to Economic Development, 50% goes for prizes and we take 16% for administration.

289 REP. PICKARD: Do you have numbers of how much that amounts to in dollars?

294 DAVEY: Roughly \$600,000 per year.

301 REP. PICKARD: Why do you wait 60 days to transfer the money?

305 DAVEY: It was set up that we make quarterly transfers of the funds so they sit in the account for a quarter.

311 CHAIR BAUM: You pay prizes out of that account in the treasurers office?

320 DAVEY: Yes. The bulk of the money in the account goes out to pay prizes.

359 CHAIR BAUM: Mr. Griffith what is your recommendation of where to set the lottery prizes?

364 GRIFFITHS: I was responding to what would be the change if certain occurrences occurred.

450 WARNER: The elasticity range is wide but in terms of the transfers to EDD the range is \$92 to \$105 million, this is a large range. It implies that perhaps the critical issue on this bill are things other than the impact on revenue.

TAPE 97, SIDE A

040 STEVE BENDER: Presents Comparison of State lotteries (EXHIBIT H).

087 BENDER: It is more important to look at this in comparison to the other states because there are many different factors involved in how they collected their data. Continues presentation of EXHIBIT H.

147 CHAIR BAUM adjourns the meeting at 11:04 am.

Submitted by,

Jeri Chase Office Manager

EXHIBIT SUMMARY

EXHIBIT A - -1 amendments on HB 2340, submitted by Joe Cortright, pgs. 2.

EXHIBIT B - Hand engrossed amendments to HB 2340, submitted by Joe Cortright, pgs. 5.

EXHIBIT C - Proposed Amendments to HB 2340, submitted by Representative Jerry Barnes, pgs. 1.

EXHIBIT D - Staff Proposed Amendments on HB 2338, submitted by Joe Cortright, pgs. 2.

EXHIBIT E - Staff Measure Summary on HB 2341, submitted by Joe Cortright, pgs. 4.

EXHIBIT F - "Economic Development Transfer Made," submitted by Jim Davey, pgs. 1.

EXHIBIT G - "Lottery Analysis," submitted by David Griffiths, pgs. 1.

EXHIBIT H - Comparison of State lotteries, submitted by Steve Bender, pgs. 4.