

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 3, 2011

1:36 p.m.

MEMBERS PRESENT

Senator Dennis Egan, Chair
Senator Linda Menard
Senator Bettye Davis
Senator Cathy Giessel

MEMBERS ABSENT

Senator Joe Paskvan, Vice Chair

COMMITTEE CALENDAR

SENATE BILL NO. 34

"An Act establishing the Alaska small business revolving loan fund; relating to the fund and loans from the fund; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 34

SHORT TITLE: SMALL BUSINESS REVOLVING FUND

SPONSOR(S): SENATOR(S) WIELECHOWSKI, ELLIS, PASKVAN, MCGUIRE, MENARD, THOMAS

01/19/11	(S)	PREFILE RELEASED 1/14/11
01/19/11	(S)	READ THE FIRST TIME - REFERRALS
01/19/11	(S)	L&C, FIN
02/03/11	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR WIELECHOWSKI
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Sponsor of SB 34.

MICHELLE SYDEMAN
Staff to Senator Wielechowski
Alaska State Legislature

Juneau, AK

POSITION STATEMENT: Commented on SB 34 for the sponsor.

WANETTA AYERS, Director

Division of Economic Development

Department of Commerce, Community and Economic Development
(DCCED)

Juneau, AK

POSITION STATEMENT: Answered questions about SB 34.

MIKE BORGFORD, Executive Director

Made in Mat-Su Association

Wasilla, AK

POSITION STATEMENT: Supported SB 34.

JIM DODSON, President

Fairbanks Economic Development Corporation

Fairbanks, AK

POSITION STATEMENT: Supported SB 34.

ACTION NARRATIVE

[1:36:27 PM](#)

CHAIR DENNIS EGAN called the Senate Labor and Commerce Standing Committee meeting to order at 1:36 p.m. Present at the call to order were Senators Giessel, Davis, Menard, and Chair Egan.

SB 34-SMALL BUSINESS REVOLVING FUND

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CHAIR EGAN announced the consideration of SB 34.

[1:37:17 PM](#)

SENATOR WIELECHOWSKI, sponsor of SB 34, said that small businesses provide a huge amount of employment in Alaska. The problem is that businesses continue to have a difficult time getting credit, and this bill would allow small businesses to receive small loans or microloans. This bill could help rural Alaska grow, he said.

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MICHELLE SYDEMAN, Staff to Senator Wielechowski, said the purpose of the fund would be to promote economic development by helping small businesses in Alaska to access critically needed capital.

The Need: in just two years there has been a substantial tightening of credit available to small business. The National Small Business Association does a survey twice a year and they have seen a very steady decline in reporting access to adequate credit. Two years ago almost 80 percent of businesses said they did have access to the credit they need; now it's under 60 percent. There were a third fewer loans in 2009 than there were in 2008, and fewer loans are being made now than in 2000.

Why is this a problem, she asked and answered that start-up businesses have a particularly big effect on job creation. Some 25 percent of new jobs are created as start-ups. So, they want to foster development of new enterprises.

Is Alaska different than other states in the US on this credit issue? She said she called various economists in the state and found that the answer was no, but the problem may be worse in Alaska because business costs are higher, markets are smaller, and the number of lenders is fewer. This is a problem that needs to be addressed here. The best thing that government can do right now is make sure that credit is available. Small business credit is where we should be focusing our attention.

MS. SYDEMAN said 46 states have micro-lending programs under the auspices of the Federal Small Business Administration, and two other states participate through neighboring states. So that leaves two states without a micro-lending program. Alaska does not have one because there are no private lenders willing to do so. So government should step in and be that intermediary lender that is required by the federal government.

She said that HB 412 [26th Legislature] passed the House unanimously, but it did not pass the Senate, which is one of the reasons a Senator decided to advance a bill. They contacted various small business owners to ask them their opinion. The one comment they got back several times was that last year's bill was fantastic, but the maximum loan limits are a little lower than they would like to see. HB 412 had a maximum loan limit of \$35,000 for a sole proprietorship and \$70,000 for a business owned by two or more people. They decided that increasing that slightly - to \$50,000 for one person and \$100,000 for two - wouldn't run them into a loan size that would be more attractive to private lenders. Coincidentally, the federal government did the same thing. So, SB 34 mirrors the federal limit.

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MS. SYDEMAN said the Governor has reintroduced microloans as part of a broader loan package that has similar details. So, what she says applies to the Governor's bill as well.

Loan Eligibility: Applicants must be Alaska residents. They must provide at least 10 percent equity and sufficient collateral to secure the loan. Loans would have an interest rate of between 6-8 percent and the maximum term would be six years. The program would be operated by the Division of Investments, Department of Commerce, Community and Economic Development, and it fits nicely within other programs that the division administers. One of them is the Small Business Economic Development Fund. But, though that fund is financed with federal money, it's only available to communities that have been identified as experiencing economic hardship. Anchorage and Juneau businesses would not qualify, and further it targets long-term financing, not a short-term fairly-quick turn-around kind of microloan.

The second program, the Rural Development Fund, is a compliment to an existing program. It is available only to small communities with less than a population of 5,000 if not road-connected and 2,000 if road-connected.

She recapped that microloans would be available state-wide, they are of modest size, they're short term and they can actually be used for a fairly broad array of purposes from working capital to making improvements to any land one might be leasing, and purchasing inventory. This may be a little different than what private lenders would do as they are sometimes reluctant to lend to a start-up business because they don't have a proven track record or major assets.

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The application process would be streamlined; a simple process with a \$100-application fee and a 1-percent origination fee. The fiscal note calls for the fund to be capitalized at \$3.5 million. That could be done with general funds. Last year's bill explicitly called for use of the AIDEA dividend, which has about \$35 million available, but for the last six years the co-chairs of both Finance Committees have agreed to use those funds for the capital budget.

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Another option for \$1.5 billion in funding is a new federal program called the Small Business Jobs Act of 2010. It's a formula-driven program and Alaska's share would be more than \$13 million. She said the administration has filed a letter of

intent to participate in this program. The application deadline is June 27, 2011.

She noted that interest earnings go back into the revolving loan funds so they are self-sustaining. The DCCED has estimated that this program could let 20 loans in the first year and 25 in each year thereafter. By FY17 all of the funding would be pushed out, but money would start coming back in. So once the program is capitalized. it is self sustaining and has no further cost to the state. She said they have seen wide-spread support for this kind of loan program.

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The Bristol Bay Economic Development Corporation commented that in their part of the state traditional sources of capital really are not available; so having a state program like this that makes modest loans would be helpful, particularly to bridge short-term financing problems that small businesses might experience. It would, in fact, enable those businesses to employ more Alaskans, which is the goal here.

The Small Business Development Center commented that many banks have less interest in making small loans. Nationally the average size of a microloan is in the \$12,000 to \$13,000 range, too low for a private bank to consider. The Southwest Alaska Municipal Conference said the types of businesses that would benefit from this would be very small mom and pop operations - small mechanic shops, bed and breakfast operations, small day care centers, and small fishing processing businesses - the kind of things you might see in small Alaskan communities.

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MS. SYDEMAN'S closing thoughts:

- Very small loans, available only to residents
- Quick turn around
- For many businesses this could be the difference between success or failure - the ability to start up at all
- Possibility of a federal source
- Self-sustaining fund

MS. SYDEMAN explained that the administration "is the brains" behind this bill.

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SENATOR MENARD asked what the "I" stands for on slide 10 under the Rural Development Fund.

MS. SYDEMAN answered "Initiative."

SENATOR MENARD said that she understands the difficulties with getting a loan right now and she would appreciate not having to hear this bill again before moving it out. She strongly supported SB 34.

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CHAIR EGAN said he has a tendency to agree with her. However, he notified the committee that they would hold this bill until next week.

SENATOR GIESSEL asked if Ms. Sydeman could clarify where the money will from relative to the federal money she mentioned.

MS. SYDEMAN answered that the deadline for application is June 27 of this year.

SENATOR GIESSEL said her dilemma is the closeness of the application deadline; yet the effective date of the bill is July 1. She wanted to know if there was another source for the \$3.5 million in case the federal money didn't come through.

MS. SYDEMAN answered that she pointed out a hole in her logic. She said she did not know what would have to be done in the Finance Committee in terms of authorizing general funds in the event that federal funds were not available.

SENATOR GIESSEL said language on page 2, lines 1-19, describes where the money can come from, and mentions "grant", but then language on line 24(2) also talks about "grant". Is that an oversight?

MS. SYDEMAN said she could not answer that question, and she would have to look at it.

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SENATOR MENARD confirmed that she would clarify with the banks don't feel this is a competition with them.

MS. SYDEMAN answered that she would not be able to make that clarification today. Yesterday she talked with bank industry and there is now some concern about the loan limits in this bill even though the limits were acceptable in the previous bill. She hoped there will be testimony from someone representing the banking industry.

Another issue that came up yesterday was regarding some of the DCCED loan programs that require an applicant first go to a private lender and be turned down for a loan before coming to the state. Her understanding before yesterday afternoon was that lenders felt in some ways that creates "non-revenue traffic" to their banks and that people are just there to be turned down and have no intention of applying for an interest rate that may be at the higher lending level that a private lender would need to ask for. Some bankers said if such a provision were included, that would make them oppose the bill. She thought the committee would want to look at the maximum loan limit and a turn down provision.

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SENATOR MENARD said the reason it is important to advocate for a loan limit of \$50,000 is because there are many individuals who have some great ideas but do not have the start up money to begin. This revolving loan for small businesses is a reasonable bill to put forward. Small business is the heart of America.

SENATOR WIELECHOWSKI noted that Senator Menard was a co-prime sponsor and Senator Davis was added as a co-sponsor of SB 34.

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SENATOR GIESSEL repeated her question about the inclusion of the word "grant" in the money received in the bill and if it is an oversight.

WANETTA AYERS, Director, Division of Economic Development, Department of Commerce, Community and Economic Development (DCCED), said she believes that it is a drafting oversight. She added that they have submitted, through the Governor's Office, a package of three revolving loan funds (HB 121 and SB 67) that have a microloan provision. The Governor has been very supportive of this for several sessions, and for all of the reasons Ms. Sydeman outlined, it follows the logic and information they received from both borrowers and the lending community about the need and support for the program.

She said that a number of bankers participate in the Commissioner's Economic Advisory Council that said the idea of a turn down provision was probably not necessary for a microloan bill. However, it is a standard practice within the department's other loan funds and she didn't see that as a tremendous hurdle.

MS. AYERS also mentioned that Ms. Sydeman's slides refer to the Division of Investments, which has been merged with the Office

of Economic Development into the Division of Economic Development, and that would be the operating entity that would be responsible for implementing this loan fund.

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MIKE BORGFORD, Executive Director, Made in Mat-Su Association, Wasilla, said SB 34 has complete support. It is really an important tool especially for those in the core from Homer to Fairbanks, because there are other programs that none of them are eligible for. The biggest thing they see with SB 34 is that it will add viability for existing businesses, which are all in manufacturing. With the credit crunch and even before then, it was very difficult for small businesses to go into the local lending establishments and get small loans.

One important question was brought up that the bill doesn't require the business to be located in Alaska. It came up because one of their members who is a long-term resident of the MatSu also owns a company in Oregon. He thought he could apply for a loan through this program and actually spend the money on his business in Oregon. They found that unique, but he hoped that loophole would be closed before this bill is enacted into law.

SENATOR MENARD said it would be a good idea to address this loophole.

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JIM DODSON, President, Fairbanks Economic Development Corporation, said that he agrees with limiting the bill to businesses in Alaska. Nationally, he stated over the last 15 years small businesses have generated over 64 percent of all new jobs in the US. It's important to remember that economies are measured by the success of individuals and availability of jobs, personal quality of life and individual opportunity, not the success of government. Since 1990, the average per capita income of Alaskans has been in decline relative to the national per capita, a trend that must be reversed, and SB 34 is a move in the right direction.

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CHAIR EGAN announced that the committee would hold SB 34 until next week. There being no further business to come before the committee, he adjourned the meeting at 2:12 p.m.