

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

239 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

Teacher's Questionnaire
(continued)

5. If at some point, the housing needs of Alaskan teachers are satisfied, would you recommend or approve loans to refinance high interest home mortgages of Alaskan teachers?

178 Yes

38 No

Teachers' Questionnaire
Results as of October 21, 1977

URBAN RESPONDENTS : Total 265

Question #1. "Do you approve of making loans to teachers from the Teachers' Retirement System?"

89 approved
175 disapproved

Note: Questions #2-#5 are applicable only to those respondents answering "yes" to Question #1.

Question #2. "Considering the difficulty faced by the rural teacher in obtaining financing, would you support giving these rural Alaskans priority?"

56 approved
34 disapproved
0 no response

Those answering "no" to question #2 gave the following suggestions on prioritization.

24 equal distribution
0 greater percentage urban
1 greater percentage rural
1 dependent on accumulated credit in TRS system
0 only if other financial avenues are unavailable
8 no response

Question #3. "An interest rate of 7% was recommended for the above loans taking into consideration the high cost of living in rural Alaska as well as the high cost of construction. Such a loan on a 30 year basis would be a major contribution in lowering the cost of the teachers living in rural Alaska (and reduce the cost of all Alaskans). Would you support an interest rate of 7%?"

65 favored TRS loans on a 7% interest rate basis
23 did not favor 7% interest loans, expressing the following preferences:
17 greater than 7%
3 less than 7%
0 interest free
3 other

Question #4. "When the needs of the rural teacher are met, would you recommend such a loan program for the urban teacher (those in Anchorage, Fairbanks, and Juneau)?"

49 recommended an extension of the loan program to the urban sector once the rural loan needs are met
7 recommended that no such extension be made
0 no response

Teachers' Questionnaire
Results as of October 21, 1977
Page 2

URBAN RESPONDENTS

Question #5. "If, at some point, the housing needs of Alaskan teachers are satisfied, would you recommend or approve loans to refinance high interest home mortgages of Alaskan teachers?"

72 approved
14 disapproved

Teacher's Questionnaire
Results as of October 21, 1977

Rural Respondents Only: 163

1. Do you approve of making loans to teachers from the Teacher's Retirement System?

132 Yes

30 No

Questions 2 through 5 are applicable only to those responding "yes" to Question 1.

2. Considering the difficulty faced by the rural teacher in obtaining financing, would you support giving these rural Alaskans priority?

117 Yes

15 No, with the following comments:

11 Suggest Equal Distribution

2 Dependent on Accumulated Credit in TRS

3. An interest rate of 7% was recommended for the above loans taking into consideration the high cost of living in rural Alaska as well as the high cost of construction. Such a loan on a 30 year basis would be a major contribution in lowering the cost of the teachers living in rural Alaska (and reduce the cost of all Alaskans). Would you support an interest rate of 7%?

118 Yes

14 No, with the following comments:

9 Greater than 7%

2 Less than 7%

4. When the needs of the rural teacher are met, would you recommend such a loan program for the urban teacher (those in Anchorage, Fairbanks, and Juneau)?

104 Yes

13 No, with the following comments:

9 Feel Sufficient Financing in Urban areas

2 Gave Other Reasons

Teacher's Questionnaire
(continued)

5. If at some point, the housing needs of Alaskan teachers are satisfied, would you recommend or approve loans to refinance high interest home mortgages of Alaskan teachers?

106 Yes

24 No

VETERANS QUESTIONNAIRE

Approximately 4500 Veterans questionnaires were mailed on October 6-9, to veterans whose names were provided to us by the American Legion in Juneau.

This questionnaire was also mailed to 100 Alaskan residents whose veteran's status was unknown.

To date, no results have been tabulated.



Pouch V
JUNEAU ALASKA
99811

Alaska State Legislature

September 21, 1977

Senate Committee
on the
Permanent Fund

Dear Veteran:

During the next session of the Alaska legislature, various pieces of legislation will be proposed concerning the structure, management, and activities of the Alaska Permanent Fund. As Chairman of the Senate Committee on the Permanent Fund, I have the responsibility of directing the Senate effort toward preparing legislative alternatives for consideration.

Our committee has been examining existing state loan programs. One option we are considering is the consolidation of the present loan programs into a more unified program that would continue to make loans to various groups, but under a consolidated management system within the Permanent Fund in order to maximize efficiency and lower administrative costs.

Enclosed please find a summary of existing loan programs in the State. It is interesting to note that while the Veterans' Loan Program should be giving the veteran special consideration in relation to interest rates and dollar amounts, other loan programs seem to offer preferential rates and terms.

We are presently studying how other states have structured their veterans' loan programs, and hopefully we can match such programs here in Alaska. In any event, some thoughts are outlined in the enclosed questionnaire to solicit your advice in this area. We would appreciate your completing the questionnaire and returning it to us at the following address by October 15, 1977.

Senator George Hohman, Chairman
Senate Permanent Fund Committee
Pouch Y
Juneau, Alaska 99811

Attention: Veterans' Questionnaire

Sincerely,

A handwritten signature of George Hohman in dark ink.
George Hohman, Chairman
Senate Committee on the
Permanent Fund

Enclosures (2)

EXISTING STATE LOAN PROGRAMS

NAME	ELIGIBILITY	AMT.	TERMS	INTEREST RATE	
Agricultural Revolving Loan Fund	AK resident farmer, home-steader or partner of same				No other available financing
Short Term		\$ 25,000	1 yr	6%	
Farm Development	3 yrs experience	200,000	30 yr	6%	
Chattel	2 yrs experience	100,000	7 yr	6%	
Irrigation		no max	10 yr	4%	
AK State Dev. Corp. (presently inactive)	Development of new and expanding business & ind.	\$750,000 *	20 yr	legal rt of int.	*Max 90% of loan/10% other sources
Child Care Facility Revolving Loan Fund	Require certificate of need from Dept. of CRA	10,000	10 yr	6%	No other available financing
Commercial Fishing Revolving Loan Fund	5 yr AK resident, 3 yr comm. fishing license	150,000	15 yr	7%	
Fisheries Enhancement Loan Program	Non-profit hatchery permit* holder	300,000	25 yr	8%	Max loan not to exceed 75% of total cost
	Non-profit corporation	3,000,000	25 yr	8%	
Small Business Development Corporation	Through Local Development Corporation		25 yr	7%	Loans made through LDCs w/SBA participation
Small Business Revolving Loan Fund	Less than 50 employees Less than \$2 mill gross receipts, AK resident.	300,000	*	8%	*Secured real property-15 yr, secured by equipment-max 5 yr
Student Financial Aid Revolving Loan Fund	AK resident Full-time student	(per Yr) 2,500 " 5,000	Option of 6 or 10 yrs	5% 5%	40% forgiveness with 5 yrs employment in Ak following grad.
Tourism Revolving Loan Fund	Involvement in tourist industry showing potential for growth	3,000,000	20 yr	8%	Loans over \$150,000 require not less than 20% bank participation
Veterans Affairs Revolving Loan Fund	AK veteran		20-30 yr (average)		
Personal	5 veteran	10,000		7.5%	
Business	6 yr Nat'l Guard (army, air, naval militia)	125,000		7.5%	
Vet occupied duplex		83,250		7.5%	
Single family		68,250		7.5%	
Multiple dwelling		110,000		7.5%	
Water Resources Revolving Loan Fund	Public utilities showing economic & technical feasibility		7 yr	5%	
Senior Citizens Housing Development Fund	Municipalities and corp. to assist comm. in development of senior citizen housing. Residence of senior citizen		None Specified		This fund engages in grants as well as loans Utilizes Fed money when possible for housing development
Alaska Housing Finance Corporation					Statute requires AHFC restrict activities to persons of low income and those in remote areas
Conventional					
Single family	Owner occupants	65,000	max/30yr	7.75%	
Duplex	Owner occupied unit	90,000	"	7.75%	
FHA/VA insured loan					
Single family	Owner occupants	65,000	"	7.50%	
Duplex	Owner occupied unit	90,000	"	7.50%	
Home improvements	Home - rural Alaska	15,000	15 yr	9.50%	(as of 1976)
Historical Revolving Loan Fund	Person, firm, business or municipality for restoration of historical bldg. Requires approval of local historical commission	100,000		6.5%	Secured by acceptable collateral and not to exceed 85% of same Bank participation

Veteran's Revolving Loan Program
Questionnaire

If all loans were processed through one office, all personnel now paid by the Veteran's Revolving Loan Program could be paid by the interest earnings of the Permanent Fund, allowing cash in the Veteran's Revolving Loan fund to subsidize loans made to veterans by charging a lower interest rate to veterans and having the balance paid from some other source.

1. Do you feel the veteran should be able to borrow below a uniform rate? Yes _____ No _____
If so, how much lower? 1% _____
 1/2% _____
 Other _____

2. If a business loan limitation is \$500,000 for all Alaskans, do you feel an Alaskan veteran should be recognized by having a limitation above that limit? (Example: 5% higher for each loan program limitation).

 Yes _____ No _____
If so, what percentage above the maximum amount? _____%

3. The following are considered eligible for the Alaska Veteran's Revolving Loan Program:
 - a. A veteran who entered the military from Alaska,
 - b. A veteran who has lived in Alaska five years after leaving the military,
 - c. A person who has served six years in the Alaska National Guard.

To encourage veterans to join the Alaska National Guard,
would you recommend allowing those who do so for six
years eligibility preference as outlined in No. 2 above?

Yes _____ No _____

If so, allow a rate of _____%.

4. To encourage veterans to join the Alaska National
Guard, would you recommend a further reduction in
interest rates as outlined in No. 1 above?

Yes _____ No _____

If yes, how much? 1% _____

1/2% _____

Other _____

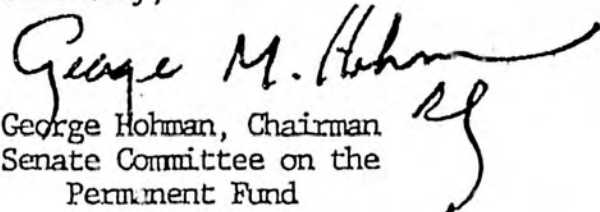
Other comments:

After completing the questionnaire, please return it to me
at the following address by October 15th.

Senator George Hohman, Chairman
Senate Permanent Fund Committee
Pouch Y
Juneau, Alaska 99811

Attention: , Veterans' Questionnaire

Sincerely,


George Hohman, Chairman
Senate Committee on the
Permanent Fund

May we contact you by phone or mail at a later date?

Yes _____ No _____

Name _____

Address _____

Phone number _____

PUBLIC EMPLOYEE QUESTIONNAIRE

Approximately 5500 Public Employee questionnaires were mailed on October 11-13, to public employees who are members of APEA. This listing was provided to us through APEA.

To date, no results have been tabulated.



Pouch V
JUNEAU ALASKA
99811

Alaska State Legislature

September 27, 1977

Senate Committee
on the
Permanent Fund

Dear Public Employee:

As you are aware, the voters of the State of Alaska approved a constitutional amendment to create the Alaska Permanent Fund. The Senate Committee on the Permanent Fund is presently examining possible uses of this Fund. One facet of our study is an examination of the existing state loan programs and the means by which low interest housing loans may be made available to rural Alaskans which would, of course, include public employees.

Somewhere in the future, it is possible low interest home loans may become available to both rural and urban Alaskans - if the legislature reflects the indicated opinions of Alaskans. However, cash flow will be such that all Alaskans may not be served immediately. The public employee in rural Alaska has a particular need for housing and is often unable to obtain adequate financing. One method of obtaining the necessary financing would be to allow the public employees in the rural areas to borrow money for home construction through the Public Employees Retirement System which has a balance of \$200 million as of August 31, 1977. It seems possible that monies from this fund could be available almost immediately for low interest housing loans for public employees in rural Alaska. This same approach could be used for teachers located in rural areas. These loans, of course, would be made only to those public employees with appropriate credit status and would not adversely effect any retirement eligibility for Alaskan public employees.

Enclosed is a questionnaire dealing with low interest housing loans to be made through the Public Employees Retirement System. As Chairman of the Senate Committee on the Permanent Fund, I would appreciate your attention in completing the questionnaire and returning it to the following address by October 15th.

Senator George Hohman, Chairman
Senate Permanent Fund Committee
Pouch Y
Juneau, Alaska 99811

Attention: Public Employee's Questionnaire

Sincerely,

A handwritten signature in cursive script, appearing to read "George Hohman".
George Hohman, Chairman
Senate Committee on the
Permanent Fund

Enclosures (2)

Public Employee's Questionnaire

1. Do you approve of making loans to public employees from the Public Employees Retirement System?

_____ Yes

_____ No

2. Considering the difficulty faced by the public employees in rural Alaska in obtaining financing, would you support giving the rural Alaskans priority?

_____ Yes

_____ No

If no, what would you suggest?

3. An interest rate of 7% was recommended for the above loans taking into consideration the high cost of living in rural Alaska as well as the high cost of construction. Such a loan on a 30 year basis would be a major contribution in lowering the cost of the public employees living in rural Alaska (and reduce the cost of all Alaskans). Would you support an interest rate of 7%?

_____ Yes

_____ No

If no, what rate would you recommend?

4. When the needs of the public employee in the rural areas are met, would you recommend such a loan program for the public employees in the urban sector (Anchorage, Fairbanks, Juneau)?

_____ Yes

_____ No

If no, why not?

Page 2
Public Employee's Questionnaire

5. If, at some point, the housing needs of Alaskan public employees are satisfied, would you recommend or approve loans to refinance high interest home mortgages of Alaskan public employees?

_____ Yes

_____ No

Please return questionnaire to:

Senator George Hohman, Chairman
Senate Permanent Fund Committee
Pouch Y
Juneau, Alaska 99811

Attention: Public Employee's Questionnaire

May we contact you by phone or personally at a later date?

Name _____

Address _____

Phone number _____

Senator George Hohman, Chairman
Senate Committee on the Permanent Fund
Pouch Y
Juneau, Alaska 99811

Through: APEA

CREDIT UNION QUESTIONNAIRE

A total of 36 Credit Union questionnaires were mailed on October 13, to the credit unions listed on the attached page.

To date, no results have been tabulated.

A F & S Federal Credit Union
410 Denali
Anchorage, Alaska 99501
Roberta Crose \$2,664,768.00

Alaska District Engineers FCU
Box 7002
Anchorage, Alaska 99510
Jacqueline L. Cox \$3,253,935.49

Alaska Municipal Employees FCU
2509 Eide Street
Anchorage, Alaska 99503
Darlene Sparkman \$10,567,308.74

Alaska Railroad Federal Credit Union
Pouch 7-2111
Anchorage, Alaska 99510
James T. Hadfield \$4,509,366.40

Alaska School Employees FCU
3500 Eide Street
Anchorage, Alaska 99503
Margaret Crawley \$15,088,906.06

Alaska Teamsters Federal Credit Union
1200 Airport Hts Rd, Suite 430
Anchorage, Alaska 99504
Emmitt Wilson \$6,972,425.88

Alaska USA Federal Credit Union
777 Juneau Street
Anchorage, Alaska 99501
Len Larson \$118,615,239.73 ✓

ALP Federal Credit Union
Mill Site Box 1050
Sitka, Alaska 99835
Larry A. Nelson \$2,393,182.34

Anchorage Area Federal Credit Union
325 E. Third, Room 20
Anchorage, Alaska 99501
Karen Rader \$287,424.77

Anchorage Realtors FCU
410 Denali
Anchorage, Alaska 99501
Roberta Crose \$171,078.00

Bering Straits Federal Credit Union
P. O. Box 505
Nome, Alaska 99762
Connie Madden \$407,850.30

CEA Federal Credit Union
P. O. Box 3518
Anchorage, Alaska 99501
Wayne Butch

City of Fairbanks Federal Credit Union
Box 2332
Fairbanks, Alaska 99707
Penny Ricco \$949,573.00

Eielson Employees Federal Credit Union
PSC 5
Eielson AFB, Alaska 99702
Anita Davis \$8,576,593.00

Fedalska Federal Credit Union
731 I Street
Anchorage, Alaska
W. E. Samples \$16,925,845.01

Ft. Wainwright Federal Credit Union
Box 3525
Ft. Wainwright, Alaska 99703
Ethel Harris \$4,277,772.62

IBEW LU 1547 Federal Credit Union
2702 Denali
Anchorage, Alaska 99503
Jeanette Highfill \$1,838,138.02

Juneau State Employees FCU
114 S. Franklin, Room 100
Juneau, Alaska 99801
LaVae Pearson \$1,028,672.35

KPC Employees Federal Credit Union
P. O. Box A-12
Ward Cove, Alaska 99928
Dolores J. Houts \$1,411,245.27

Matanuska Valley Federal Credit Union
P. O. Box 1007
Palmer, Alaska 99645
Paul Crippen \$2,567,760.17

Mt. Edgecumbe Federal Credit Union
P. O. Box 210
Mt. Edgecumbe, Alaska 99835
Colleen McFarland \$417,127.31

NC Fairbanks Federal Credit Union
P. O. Box 650
Fairbanks, Alaska 99701
Ellen L. Kelly \$636,465.00

36

News-Miner Federal Credit Union
200 N. Cushman
Fairbanks, Alaska 99701
Inez Harrit

Northern Alaska State Employees FCU
Room 215, Northward Building
Fairbanks, Alaska 99701
Leann Coskey \$551,214.15

Northern Schools Federal Credit Union
P. O. Box 90820 of A
Fairbanks, Alaska 99701
Scytha Alldredge \$957,771.09

RAA Federal Credit Union
P. O. Box 6027
Anchorage, Alaska 99502
Virginia Gilleland \$885,900.69

Seventeenth Coast Guard District FCU
Box 3-5000
Juneau, Alaska 99802
Bea Long \$1,473,478.98

Seward Alaska Federal Credit Union
P. O. Box 956
Seward, Alaska 99664
Maxine Noel

Skagway Federal Credit Union
P. O. Box 256
Skagway, Alaska 99840
Diane L. Orth \$67,456.87

Starliner Federal Credit Union
5000 International Airport Rd, Rm 139-I
Anchorage, Alaska 99502
Joyce Rust \$722,526.42

Tanana Chief Federal Credit Union
527 - 3rd Avenue
Fairbanks, Alaska 99701

Tlingit-Haida Central FCU
114 S. Franklin Street, Room 202
Juneau, Alaska 99801
Stephen Vlahovich *Handwritten signature*

Tongass Federal Credit Union
Box 541
Ketchikan, Alaska 99901
JoAnn Higgins \$478,056.92

Union-Collier Alaska FCU
P. O. Box 6247
Anchorage, Alaska 99502
Richard Howe \$580,734.00

USARAL Federal Credit Union
Box 5-489
Ft. Richardson, Alaska 99505
Robert N. Richardson \$10,480,145.60

Wien Employees Federal Credit Union
P. O. Box 60414
Fairbanks, Alaska 99701
Mebble Hansen \$2,314,948.42



Pouch V
JUNEAU ALASKA
99811

Alaska State Legislature

October 11, 1977

Senate Committee
on the
Permanent Fund

Dear Director:

During the next session of the Alaska legislature, various pieces of legislation will be proposed concerning the Alaska Permanent Fund. As Chairman of the Senate Committee on the Permanent Fund, I have the responsibility of directing the Senate effort toward this legislation.

The enclosed questionnaire is being sent to all credit unions in Alaska in order to evaluate the availability of credit to Alaskans. Hopefully, it has been prepared in such a way that it will accurately reflect the nature of activities of most credit unions.

In addition, the Committee would like information concerning possible liquidity problems experienced by Alaskan credit unions. It is our understanding that sources of external liquidity for credit unions are commercial banks, central credit unions and other credit unions. Specific information is requested regarding how your organization feels the Permanent Fund might assist your credit union (Form A).

When completing the questionnaire, please identify any information therein which you consider confidential. I hope that I can call on you in the near future for additional advice and assistance.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "George Hohman".

George Hohman, Chairman
Senate Committee on the
Permanent Fund

Enclosures (2)

Credit Union Questionnaire
Form A

Credit Union Name

1. Does your credit union need loans or an outlet for
Certificates of Deposit?

_____ Yes

_____ No

2. To what extent would you have used a bank loan to
meet your local demands pending receipt of savings/share purchases?

During 1975

\$ _____

" " 1976

\$ _____

" " 1977

\$ _____

Projected 1978

\$ _____

" " 1979

\$ _____

3. Does your credit union borrow from banks to finance peak demand periods?

_____ Yes

_____ No

If yes:

Amount

/

Duration

/

Interest Rate

\$ _____

_____ months

_____ %

If no:

_____ Financing not needed

_____ Bank funds were not available

Credit Union Questionnaire
Form A
Page 2

4. Do you feel the Permanent Fund could assist your credit union by participating in:

a. purchase of Certificates of Deposit?

<u>Amount</u>	/	<u>Term</u>	/	<u>Interest Rate</u>
\$ _____		1 year		_____
\$ _____		2 year		_____
\$ _____		5 year		_____

b. interim financing/line of credit during peak periods:

<u>Amount</u>	/	<u>Duration</u>	/	<u>Interest Rate</u>
\$ _____		_____ months		_____ %

5. If not covered above, your particular suggestions concerning whether or not the Permanent Fund could be of assistance to your organization would be appreciated.

CREDIT UNION QUESTIONNAIRE

1. What group/s comprise your field of membership?

2. Please provide a geographic breakdown of your membership:

_____ Urban Alaska (Anchorage and Fairbanks)

_____ Rural Alaska

_____ Outside Alaska

3. Please check areas of loan activity within your organization and supply further information concerning same:

	<u>Urban</u>	<u>Rural</u>	<u>Outside</u>
_____ Share loans			
Average interest rate	_____ %	_____ %	_____ %
Range of interest rates (if any)	_____ % to _____ %	_____ % to _____ %	_____ % to _____ %
Dollar amount of share loans outstanding	\$ _____	\$ _____	\$ _____
_____ Unsecured loans			
Average interest rate	_____ %	_____ %	_____ %
Range of interest rates (if any)	_____ % to _____ %	_____ % to _____ %	_____ % to _____ %
Dollar amount of unsecured loans outstanding	\$ _____	\$ _____	\$ _____
_____ Mortgage Loans - Conventional			
Length of mortgage	_____ mos	_____ mos	_____ mos
Average interest rate	_____ %	_____ %	_____ %
Range of interest rates (if any)	_____ % to _____ %	_____ % to _____ %	_____ % to _____ %
Dollar amount of mortgages outstanding	_____ \$	_____ \$	_____ \$

Credit Union Questionnaire
Page 2

Mortgage loans (federally insured)	\$_____	\$_____	\$_____
Length of mortgage	____mos	____mos	____mos
Range of interest rates (if any)	____%to____%	____%to____%	____%to____%
Dollar amount of mortgage outstanding	\$_____	\$_____	\$_____

4. What is the approval rate (number of approvals - number of applications) for:

	<u>Urban</u>	<u>Rural</u>	<u>Outside</u>
Share loans	_____	_____	_____
Unsecured loans	_____	_____	_____
Mortgage loans (conventional)	_____	_____	_____
Mortgage loans (federally insured)	_____	_____	_____

5. What factors are most important in loan denials in urban/rural areas?
Please rate from 1 to 10, 1 being the most important factor

	<u>Urban</u>	<u>Rural</u>	<u>Outside</u>
Lack of applicant capital	_____	_____	_____
Undeveloped nature of local economy	_____	_____	_____
Poor credit record of applicants	_____	_____	_____
Lack of applicant experience	_____	_____	_____
Lack of applicant education	_____	_____	_____
Difficulty of servicing loan	_____	_____	_____
Lack of local support services	_____	_____	_____
Lack of government infrastructure	_____	_____	_____
Out of credit union service area	_____	_____	_____

Credit Union Questionnaire
Page 3

5. (continued)

Other (urban) please specify:

Other (rural) please specify:

Other (outside) please specify:

6. Which types of credit do you think are insufficiently available to urban Alaska?

Housing _____

Development _____

Business venture _____

Other (please specify)

Business expansion _____

Research _____

None _____

7. Which types of credit do you think are insufficiently available to rural Alaska?

Housing _____

Development _____

Business venture _____

Other (please specify)

Business expansion _____

Research _____

None _____

8. Please comment on your impressions of the role played or potentially played by the federal loan programs in the Alaskan economy.

9. What do you perceive as the main credit availability problems in Alaska today?

10. Please comment on your impressions of the role played or potentially played by the state loan programs in the Alaskan economy.

11. What role should the Alaska Permanent Fund play in addressing these problems?

12. How should the Permanent Fund invest its capital?

- | | |
|---|---------|
| A. High grade stocks, bonds, and federal paper | _____ % |
| B. Certificates of deposit in Alaska financial institutions | _____ % |
| C. Alaska loan programs | |
| 1. New loan programs | _____ % |
| 2. Housing loans | _____ % |
| 3. Expansion of existing loan programs | _____ % |
| 4. Community development | _____ % |
| 5. Technological development loans
(energy, arctic construction, etc.) | _____ % |
| 6. Other (please specify) | _____ % |

Please return completed questionnaire to:

Senator George Hohman, Chairman
Senate Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

May we contact you personally or by telephone at a later date?

Name _____

Address _____

Telephone number _____

Comptroller
Letter

Comptroller of the Currency
Administrator of National Banks

Thirteenth National Bank Region
707 S.W. Washington Street, Room 900
Portland, Oregon 97205

September 2, 1977

Senator George Hohman, Chairman
Senate Committee on the Permanent Fund
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Hohman:

I am responding to your letter of August 24, 1977. I don't know if we can be of too much help.

The Thirteenth National Bank Region, embracing the States of Alaska, Idaho, Montana, Oregon, and Washington, is headquartered here in Portland. Except for an annual news release (copy enclosed), we do not publish reports on statistics. The Federal Reserve Bank of San Francisco is probably the best west coast source of statistical data.

I'm assuming you are thinking about establishing a state loan fund to assist in the development of Alaskan business and industry rather than placing the receipts in the money market for the highest return. The idea has good possibilities. You could perhaps fund long-term programs at a cost to the borrowers which would be somewhat less than charged by commercial banks. Another arrangement would involve providing guarantees to the banks if they would finance certain projects -- similar to the Small Business Administration's program. In the latter instance, no monies would be expended unless a borrower defaulted.

I can't address the legal implications, but it would seem that the economic impact would be more beneficial than harmful to existing financial institutions. By lending at slightly lower rates and probably for a longer term than banks, you would foster growth which in turn would benefit banks through increased deposits and the necessity to expand services.

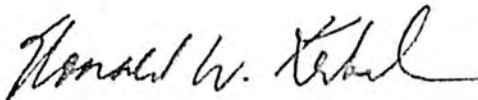
Government sponsored loan programs, such as home mortgage loans at 5.9% granted by the State of Oregon to war veterans, have not undermined the market. The same can be said of the Federal Housing Administration's national mortgage loan guarantee program.

Senator George Hohman
September 2, 1977
Page 2

You anticipate the Permanent Fund to total about \$1.8 billion in 1985. This is a substantial amount and I don't mean to infer that there will be no impact. At the end of 1976, the six national banks in Alaska had an aggregate loan total of \$0.6 billion. If we estimate that national bank loans grow 15% per year, the total will amount to \$2.2 billion by the end of 1985, not a great deal larger than your fund. Loans by state banks are in addition to this figure, of course.

Hopefully this has been of some help. Please let us know if we can be of further assistance.

Sincerely,



DONALD W. KERBEL
Deputy Regional Administrator
for Examinations
Thirteenth National Bank Region

enclosure

Contracts

CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY
AND
DITTMAN RESEARCH ASSOCIATES

The parties of this agreement are DITTMAN RESEARCH ASSOCIATES, hereinafter referred to as the "Contractor", and the LEGISLATIVE AFFAIRS AGENCY, on behalf of the Legislative Council's Interim Committee on the Alaska Permanent Fund (Senate), hereinafter referred to as the "Agency".

THE PURPOSE OF THIS AGREEMENT is to provide the Alaska State Legislature with information and recommendations from Alaskan citizens with respect to the Alaska Permanent Fund:

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. STATEMENT OF WORK

(A) The Contractor will:

- (1) Design sample plan for the geographic area known as the State of Alaska in which all residents shall have approximately the same chance of being included.
 - (a) The sample plan shall include four primary Alaskan regions: North/Northwestern, Central/Interior, South-central and Southeastern.
 - (b) The number of respondents shall not be less than 400.
 - (c) The number of respondents in sample from each region shall be in proportion to the total sample as the regional population.
- (2) Develop and utilize questionnaire instrument to include questions requested by the Agency and others as considered necessary for effective questionnaire design. The questionnaire instrument is subject to approval by the Project Director or his designee prior to use.
- (3) Execute the survey in accordance with the design developed under (A)(1) of this clause, using the questionnaire agreed to in accordance with (A)(2) of this clause.
- (4) Review, edit, code, keypunch and process all data involving quantitative responses.

- (5) Summarize in narrative format all qualitative responses.
- (6) Provide for analysis, report writing, collation, printing and graphics for final report.
- (7) Prepare executive summary of findings.
- (B) The Contractor will be available to attend committee meetings, as specified by the Project Director and to provide briefings and descriptions of reports and findings resulting from work described under Clause I(A).

CLAUSE II. -- PERIOD OF PERFORMANCE

- (A) Final reports required under Clause I(A) shall be delivered to the Project Director or his designee within 35 days from receipt of approval of questionnaire instrument.
- (B) Unless extended by written agreement, this contract expires 10 days following delivery of final reports to the Project Director or his designee, or on 9 January 1978, whichever comes first.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be The Honorable George Hohman, Chairman of the Senate Permanent Fund Committee.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

- (A) Contractors compensation for the work specified in Clause I(A) shall be \$8,000.00, except that the amount shall be reduced by 1% for each day of delay past the day the work is due as described in Clause II.
- (B) One-half total compensation (\$4,000.00) shall be paid to the Contractor immediately prior to initiation of work, with the remaining half (\$4,000.00) due upon completion and presentation of work results to the Project Director.
- (C) Invoices for billings shall be submitted to the Project Director or his designee.

CLAUSE V. - RECORDS, DOCUMENTS, AUDIT

- (A) The Contractor shall maintain accurate records of the work as required by the Project Director. The records are subject to inspection by the Project Director or his designee at all times.

- (B) All documents, reports and writings generated as a consequence of work done under this contract shall become the property of the State of Alaska, and on completion of the work or at the termination of this contract shall be delivered to the Project Director or his designee.

CLAUSE VI. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

IN WITNESS THEREOF, the parties have executed this agreement on the dates noted.

CONTRACTOR

LEGISLATIVE AFFAIRS AGENCY
(By direction of the Executive Director)

DAVID L. DITTMAN
DITTMAN RESEARCH ASSOCIATES
3230 "C" Street
P.O. Box 4-1234
Anchorage, Alaska 99509

Date

Gregg K. Erickson
GREGG K. ERICKSON

10/21/77
Date

Accepted:

Approved as to form:

George Hohman
GEORGE HOHMAN, CHAIRMAN
SENATE PERMANENT FUND COMMITTEE

10-24-77
Date

R. B. Bradley
AGENCY LEGAL COUNSEL

10-21-77
Date

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CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY
AND
ALASKA SEA GRANT PROGRAM

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY (acting on behalf of the Legislative Council's Senate Interim Committee on the Alaska Permanent Fund), hereinafter referred to as the "Agency", and the ALASKA SEA GRANT PROGRAM, hereinafter referred to as the "Consultant".

THE PURPOSE OF THIS AGREEMENT is to provide the Interim Senate Committee on the Alaska Permanent Fund, through the Agency, consulting assistance in regard to (1) cooperative banks and production credit associations and their potential role in the development of the Alaska bottomfish industry, and (2) the implications of foreign investment to the development of the Alaska bottomfish industry and State policy.

IT IS THEREFORE, MUTUALLY AGREED THAT:

CLAUSE I. STATEMENT OF WORK

(A) The Consultant shall provide the services of Dr. Franklin Orth to prepare two written reports for the Committee as described below:

- (1) A report on the potential advantages to the Alaska fishing industry of the operation in Alaska of a cooper-

ative bank or a production credit association. The analysis shall include:

(a) the status of existing fishing cooperatives within Alaska at the present;

(b) the status of cooperative financial assistance institutions nationwide;

(c) an analysis of the organizations and charters of the two institutions with emphasis on the usefulness of these organizations to the Alaska fishing industry.

(2) A report on the potential implications of foreign investment on the development of the Alaska bottomfish industry. The analysis shall include the potential impact of foreign investment on:

(a) price paid to Alaska fishermen for their catch;

(b) the level of activity of shore-based processing, especially considering employment levels and State revenues;

(c) the rate of development of the resource;

(d) the possible foreclosure of preferable long-range options for the development of the Alaska fishing industry

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and State policy.

CLAUSE II. - PERIOD AND DATES OF PERFORMANCE

(A) The work under this contract shall be performed prior to October 10, 1977.

(B) This contract may be terminated by either party on written notice to the other.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be Senator George Hohman, Chairman of the Interim Senate Committee on the Alaska Permanent Fund.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

For work specified in Clause I, the Consultant shall be compensated at a rate of \$900 per week for Dr. Orth's services, payment of which shall be inclusive of all expenses that may be incurred in carrying out the work specified in Clause I, except for travel and per diem expenses. The Consultant shall receive \$1165 for travel expenses: the sum of which is to pay for a round trip airline fare, coach class, from Fairbanks, Alaska to Washington, D.C., with intermediate stops in Seattle and Spokane, Washington; a round trip airline fare from Fairbanks, Alaska to Juneau, Alaska; and seven days of per diem. Total compensation under this contract including expenses shall not exceed \$7500. The Consultant shall be paid upon completion of the work as outlined in Clause I.

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CLAUSE V. - RECORDS, DOCUMENTS, AUDIT

The Consultant shall maintain accurate records, including detailed time records, as may be required by the Project Director. The records are subject to inspection by the Project Director at all reasonable times. All documents, reports and writings generated as a consequence of work done under this contract shall become the property of the State of Alaska, and on completion of the work or at the termination of this contract shall be delivered to the Agency.

CLAUSE VI. - REPORTS

The Consultant shall keep the Project Director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by her, with a copy of each report to the Director of Research, Legislative Affairs Agency.

CLAUSE VII. - OFFICE SPACE, EQUIPMENT, CLERICAL SUPPORT

Office space, equipment and clerical support to the Consultant that will be necessary to carry out the Consultant's obligations under this contract shall be supplied by the Consultant, at no cost to the Agency.

CLAUSE VIII. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties to this agreement.

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IN WITNESS WHEREOF, the parties have executed this agreement
on the dates noted next to their signatures.

CONTRACTOR

LEGISLATIVE AFFAIRS AGENCY
(By direction of the Executive Director)

ALASKA SEA GRANT PROGRAM
Donald Rosenberg, Director

Date

GREGG K. ERICKSON

Date

Accepted:

Approved as to form:

GEORGE HOHMAN, Chairman

Date

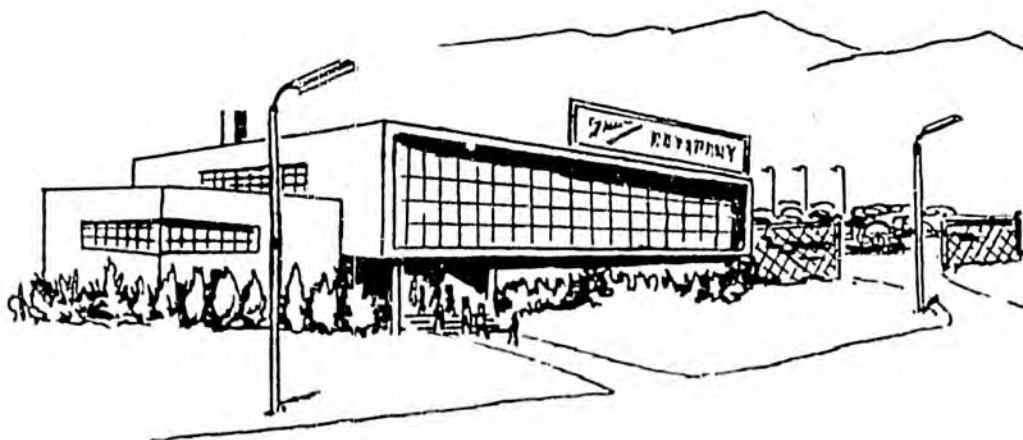
AGENCY LEGAL COUNSEL

Date

SCOMM

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LOANS TO Local Development Companies



SBA Help in:

*Financing Plant Construction,
Conversion or Expansion,
For Local Community
Economic Development*



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

KEY FEATURES

OF SBA'S LOCAL DEVELOPMENT COMPANY LOAN PROGRAM

WHO IS ELIGIBLE?	Any corporation which (a) is formed by public-spirited citizens interested in the planned economic growth of a community with at least 75 percent ownership and control held by persons living or doing business in the community, (b) has been incorporated either for profit or non-profit under laws of the State in which it expects to do business (c) is authorized to promote and assist the growth and development of small businesses in its area of operations and (d) has a minimum of 25 stockholders or members.
LOAN PURPOSES	To help a development company buy land; build a new factory; acquire machinery and equipment; expand or convert an existing plant, or construct shopping center space, provided the project will assist a specific small business, or in the case of a shopping center, several small businesses.
MAXIMUM AMOUNT	~~\$250,000~~ ^{500,000} for each identifiable small business to be assisted . . . as a prerequisite to obtaining SBA financing, a development company must provide a reasonable share of cost of project in funds raised by sale of stock, debentures, memberships, or cash equivalent (e.g., land). Minimum amount to be provided by development company will generally be 20 percent of cost of project. SBA will take a second lien position when the local lending institutions will participate in the SBA's first mortgage plan.
SOURCE OF LOAN FUNDS	(a) Bank loan guaranteed by SBA to 90 percent of the loan or ~~\$250,000~~ whichever is the lesser; (b) Bank loan with immediate participation by SBA; (c) Bank First Mortgage loan and SBA direct second mortgage loan; or (d) Direct from SBA.
INTEREST RATE	(a) Guaranteed loans: legal and reasonable rate on entire loan balance; (b) Immediate participation: legal and reasonable rate on bank share and 5½ percent on SBA share; (c) First mortgage: legal and reasonable rate on bank loan, 5½ percent on SBA loan; (d) Direct SBA loan: 5½ percent.
MATURITY	Maximum maturity of 25 years-plus estimated time required to complete construction, conversion or expansion.
TYPE OF COLLATERAL	A lien on the fixed assets acquired with loan proceeds to reasonably assure repayment of the loan.

FOREWORD

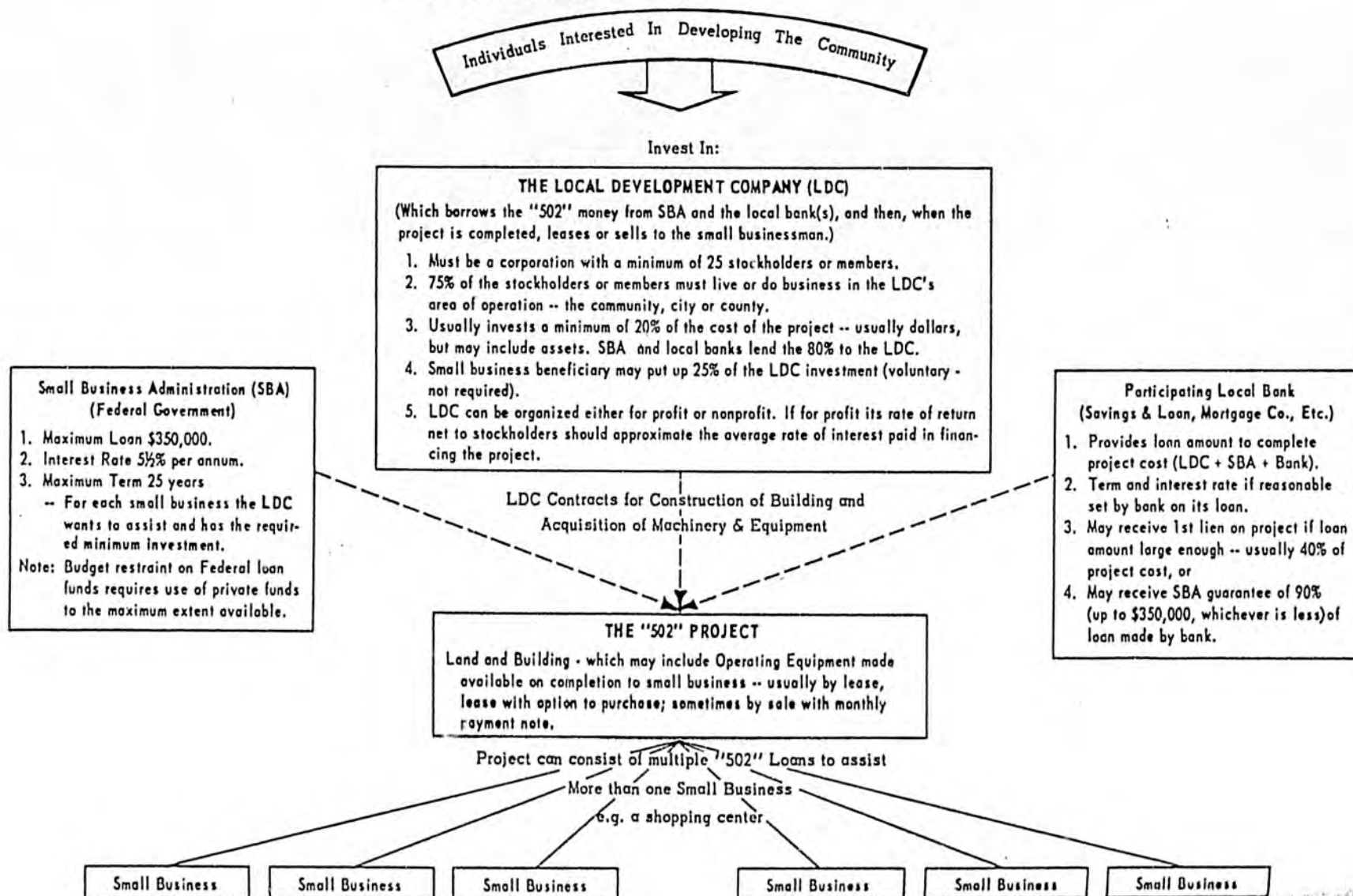
Throughout America, communities are learning that they can increase local job opportunities, income, and tax revenues by helping business concerns modernize, diversify, or expand their operations, and by encouraging new businesses. In many instances, assistance is provided through the medium of local development companies.

Since most of the concerns assisted by these development companies are small, the U. S. Small Business Administration (under authority granted by Congress) can lend funds to local development companies for use in financing specific small firms. These loans are made by SBA under Section 502 of the Small Business Investment Act of 1958, as amended.

This booklet will provide guidance for many communities in achieving greater economic growth. The U. S. Small Business Administration stands ready to give all possible help through its programs of development company loans and many other services it makes available directly to the country's 5¼ million small businesses.

THE "502" LOAN PROGRAM OF THE SMALL BUSINESS ADMINISTRATION

Purpose: To encourage economic growth and prosperity in a community by making available low-interest, longterm loans to local development companies for the purchase of land, the construction, expansion, or remodeling of buildings and the purchase of operating machinery and equipment for use therein by a small businessman.



Capital for Community Growth

Under Section 502 of the Small Business Investment Act of 1958, as amended, the Small Business Administration is authorized to make loans to State and local development companies for use in assisting specific small businesses. The SBA may lend up to ~~\$750,000~~^{\$500,000} for each small business that is to be assisted. Loans may be used to help small firms to construct, modernize, or expand their plants, and to develop industrial parks and shopping centers.

The SBA has made thousands of loans through which local and State development companies have been able to help start, expand, or modernize small businesses. If yours is a community or area in which a development company has been organized, the company may be able to expand its operations by securing Section 502 loans from SBA.

Who May Get An SBA Development Company Loan?

The SBA may make Section 502 loans to a State or local development company of either a profit or nonprofit type, provided the company has as its principal purpose the furtherance of economic development (Statewide for State development companies, and in a specific area for local companies), and provided the company is authorized to assist in the growth and development of small business.

A State development company is defined by SBA as a corporation organized by special legislative act to operate on a Statewide basis. A local development company is defined as one organized under applicable State corporation law to operate in a specific area. Although this is usually a community or even a county, SBA may approve loans to development companies which operate in larger areas.

State development companies, organized by special State law which prescribes membership by State residents or lending institutions of the chartering State, require no further resident qualification by SBA.

In the case of a local development company, SBA requires that the ownership and control be vested in individuals who reside or do business in the specified area of operations, since the organization should be a community undertaking. The area must be specifically defined and the local or area ownership and control must be not less than 75 percent of the total. No more than 25 percent of the ownership or control of the development company may be held by (a) a single individual or his affiliates if he and his affiliates have a pecuniary interest in the project to be developed (as for example, the contractor who will construct the buildings) or (b) by the holder of any interest in the small business being assisted.

Loan Purposes and Eligibility

The SBA's Section 502 loans may be used to finance construction, modernization, or conversion of plants, including the purchase of land, and to purchase machinery and equipment. These loans may not be used for working capital or for debt repayment, except interim debt incurred for construction of the project involved.

The small business to be aided must be an identifiable concern and the loan must be for a sound business purpose. For loan eligibility purposes, a small business is defined as one that is (1) independently owned and operated, (2) not dominant in its field of operations, and (3) is within the pertinent SBA size standards. A business may be considered small if it has 250 employees or less, large if it employs 1,500 or more, and, within that range may be considered either small or large depending on the SBA size standard applicable to its particular field of operations. There is an alternative size standard. Regardless of number of employees, a business, together with its affiliates, may qualify if its assets do not exceed \$7½ million; its net worth does not exceed \$2½ million; and its average net income, after Federal income taxes, for the preceding two years did not exceed \$250,000. (Average net income to be computed without benefit of any carryover loss.)

Conditions of SBA Development Loans

A Section 502 loan may not be made by SBA if the funds the development company requests are available from the banks or other private lenders. In applying for a loan, the development company must produce certified evidence that the requested funds are not available from private sources.

To the extent that private sources such as banks do have funds available, they may, and frequently do, participate with SBA in helping development companies finance projects.

A development company itself generally is required to provide from its own funds at least 20 percent of the cost of a project, and in any event not less than the amount by which the project cost exceeds the appraised market value. The development company should be prepared to expend these funds before using any proceeds of the SBA loan.

The SBA may take part in financing projects in which space is taken by large businesses as well as small—for example, industrial parks and shopping centers. However, SBA funds may be used only for developing spaces which will be occupied by identifiable small businesses. Applications for SBA loans must clearly identify the spaces for whose development the SBA funds will be used.

Security

All Section 502 loans must be so secured as reasonably to assure repayment. The SBA must be satisfied that all property and rights available as collateral security for a loan are of such a character and value as reasonably to assure repayment of the loan. In the case of each loan application, market value of the physical assets of the project will be established by a qualified appraiser. Collateral in shopping center and industrial park loans may consist of separate mortgages covering each of the multiple premises or a blanket mortgage on the entire facility. In addition to mortgages, lease assignments, or other supplemental collateral, including personal guarantees from the principal owners of the small business being assisted, may be required.

Interest Rate

The interest rate on SBA's share of a loan is ^{7 1/4}~~8 1/2~~ percent yearly.

Banks and other lenders who participate with SBA in loans may charge a reasonable, legal rate on their share. Maximum interest rates on loans to which the SBA guarantee may be extended are published quarterly and are available at all SBA field offices.

Loan Maturities and Repayment

SBA loan maturities may not exceed 25 years plus the estimated time required to complete the plant construction, conversion, or expansion. Loan maturities are based, in general, on ability to repay, along with the nature and estimated useful life of the collateral offered as security for the loan. Repayments of principal are normally made in equal monthly installments, but in certain cases quarterly or seasonal payments may be authorized. Monthly payments of interest on the unpaid principal balance are required regardless of the amortization schedule authorized for the loan principal.

How to Qualify for an SBA Development Loan

SBA 502 loans are approved only after demonstration that the proceeds will be used for plant construction, conversion, expansion, or for land acquisition, and that the user of the facility will be an identifiable small business concern. Copies of contracts or agreements between the development company and the small business for use of the facility are acceptable evidence of the concern's identity. Contracts involving leases must provide that the small business lessee be given the right to occupy the facility either for the term of the loan or for a period of five years after its disbursement, whichever is the longer time.

The development company may contract for a small business concern's use of a facility by any of the following methods:

1. By leasing the facility to the small business with option to buy, the rental payments being accepted as installment-purchase payments.
2. By leasing the facility to the small business, without option to buy, but for the period the SBA regulations require.
3. By lending the small business funds with which it constructs the facility and by accepting the firm's promissory note, with the firm obtaining clear ownership when the note is paid.
4. By selling to the small business the completed facility.

Income received by the development company under any of the above arrangements must be no greater than necessary to repay the SBA/bank loans with interest; to pay taxes and maintenance charges; to recover administrative costs and provide a reasonable reserve for contingencies; and to recover the development company's own capital and expenditures with a reasonable return thereon, in order to attract and maintain a broad base of local ownership and stimulate interest in development projects.

How to Apply for a Development Loan

Before applying for an SBA 502 loan, the local development company should first ascertain whether its bank or another lending institution will provide the needed financing, either alone or in participation with SBA. This participation can be immediate as to a portion of the loan, or a private lender can advance the entire amount of a Section 502 loan and SBA will guarantee up to \$350,000 or 90 percent of the loan, whichever is less.

If the private institutions will not lend the entire amount or participate with SBA in providing it, SBA will consider making a direct loan to the development company. To qualify for a direct loan, the development company must submit statements from at least two lending institutions stating that they have declined to lend or to participate in a loan for the requested amount.

The nearest SBA field office will be pleased to provide the necessary forms and advice and counsel on financial problems in connection with Section 502 loan applications.

Relocation Loans

Where the small firm to be assisted is relocating any of its operations from another area, the development company, before applying for the SBA loan, must obtain from a qualified officer of the small firm a certified statement that the move will not substantially increase unemployment in the firm's present area. Substantial unemployment is presumed to occur (a) when the relocation will result in unemployment for one-third of the work force of the small business; (b) when the relocation will cause the area to be classified as an area of substantial unemployment; or (c) when the area already has been classified as one of substantial unemployment or designated as a redevelopment area.

On projects involving relocation for a sound business purpose, one of the small firm's qualified officers must certify that none of the foregoing conditions exists or will result from the relocation. If the firm is expanding, the certification should attest that the firm has no present intention of relocating existing operations elsewhere.

Ineligible Purposes

SBA loans may not be used to assist nonprofit institutions, newspapers, magazines, radio broadcasting or television broadcasting companies; businesses which are primarily engaged in lending or investment; businesses which derive any of their income from gambling.

The agency also will not make a loan if the effect is to provide or free funds for speculation, to encourage monopoly, or to achieve any result that is inconsistent with the accepted standards of the American system of free competitive enterprise.

Fund Raising and Loan Sources for Local Development Companies

I. Sale of LDC capital stock, memberships, and/or debt securities (debentures, deferred notes) to local residents and other interested individuals and businessmen in the community.

II. Loans obtained by the LDC from banks, insurance companies, private lenders, and others. Frequently, these loans are secured by the personal endorsement of the principals of the LDC or other stockholders or members.

III. Contributions and gifts from individuals, businesses, cities, counties, and other public bodies.

- (a) *Personal bank loans by members of the LDC for relending to the LDC.*
- (b) *Gifts in cash or kind (i.e., land) from wealthy residents in the LDC area of operations.*
- (c) *Donations of land and land improvements (i.e., paved access roads, sewer and water lines) by the local town, city, county, or other public body.*

IV. Grants or gifts from private charitable foundations, Federal or State agencies.

- (a) *A list of private charitable foundations is usually available in local public libraries. These tax-exempt organizations are too numerous to list and include, in addition to the Rockefeller and Ford Foundations, hundreds of others. Those listed in or near an LDC's area of operation should be contacted.*
- (b) *Grant funds are sometimes available from Federal agencies for community development purposes with "no strings" attached. Those include the Economic Development Administration and other U.S. Department of Commerce sources, the Office of Economic Opportunity, Model Cities, and Urban Renewal of the Department of Housing and Urban Development, and others.*

V. State lending authorities.

- (a) *Some State lending authorities, such as the New York Job Development Authority, the Pennsylvania Industrial Development Authority, and State development companies can make direct loans to LDC's. The proceeds of these loans can be used for the LDC injection and for other project costs as well.*
- (b) *Other State lending authorities make loans to LDC's for an amount equal to a fixed percentage of the total project cost. Consideration can sometimes be given to the use of these funds as a part or all of the LDC injection.*

VI. National business and social organizations such as:

- (a) *Local chambers of commerce or boards of trade*
- (b) *National Business League*
- (c) *National Urban League*
- (d) *State industrial development and planning agencies*
- (e) *Indian tribal councils*
- (f) *The Puerto Rico Forum*

These organizations usually are not good sources for contributions or loan funds due to limited resources. However, they are knowledgeable in fund raising procedures and can provide valuable assistance to an LDC in conducting a successful fund raising campaign.

VII. Local newspapers, radio and television stations.

- (a) *The intelligent use of news media is vital in any fund raising campaign and usually can be utilized at no cost to the LDC on the basis that the media is performing a public service.*

VIII. Religious, educational (State universities), civic, economic development groups, trade and professional organizations, and unions.

Community interest can be further stimulated by involving organizations of this type in the efforts of the local development company to further the economic development of the community. They can assist in publicizing a fund raising campaign, engage in project research and feasibility studies, and, in general, help to sell the project to the community.

SUMMARY

The Small Business Administration entered the field of area development in a significant way during the past decade, pursuant to the enactment of the Small Business Investment Act of 1958, as amended. This special Act of Congress authorized SBA to make loans to State and local development companies as a means to stimulate the national economy in general and the small business segment thereof in particular. It was intended that Federal funds provided by these programs would supplement the flow of private equity capital and long-term loan funds which small business concerns need for continued growth, expansion, and modernization; funds which were not available in adequate supply due to the reluctance of private financing sources to properly service this segment of the Nation's business.

In many areas, assistance is now being provided through privately-supported local development companies which are oftentimes organized by local chambers of commerce, committees of 100, or simply a group of local, public-spirited citizens who have a sincere interest in furthering the economic development of their community. This kind of organization has grown fastest in areas of limited commercial and industrial development where it is difficult to obtain sufficient funds from private sources to support an adequate program. Quite often, the local banker will assist in spearheading the formation of a local development company in order that he can bring together the resources of business, industry, local, State, and the Federal Government to jointly develop the economic potential of his community.

What is the nature of this SBA program? It is an economic development program, not just another Government loan program. It is a program that works exclusively through a local development corporation made up of local citizens whose primary purpose is to improve their local economy. To become eligible for this kind of loan, these citizens must put up their own personal dollars and, as a corporation, assume the full liability for any project they sponsor. Community interest, not profit, is the motivating force. Many of these corporations are nonprofit; those which are profit corporations are limited in the profit they can earn on their investment to prevailing interest rates, and the personal dollars these citizens invest are subordinate in lien position to the loans of all other lenders comprising the total project funds.

What motivates U.S. citizens to unite in organizations to undertake development programs? Each citizen is probably influenced by a slightly different combination of factors, but principal considerations often include:

1. Creation of Job Opportunities. Most U.S. area development programs are job-oriented, especially in rural sections. Parents are anxious to generate opportunities for their children near home, so that the young people will not have to move to another region to find employment. Citizens of all ages want better jobs for greater personal purchasing power and security. Unemployment breeds political discontent and puts pressure on the Government to expedite development efforts.

2. Expansion of Tax Base. In recent years many development efforts have been stimulated by the need for additional tax revenue to pay for Governmental services and social benefits. Individual homeowners, as well as other interests in an area, may see the need for attracting new investment which will share the tax burden.

3. Indirectly Stimulating Private Business. Many business firms which support development efforts do so in the realization that expansion of industrial activity will produce expansion of the local economy and open new opportunities for them. Hence, hotel owners support tourism efforts; railroads actively promote industries which have heavy freight movements; and utility firms encourage development which will mean greater utilization of energy.

It should be emphasized that a common denominator among successful development efforts is the willingness of the citizens and business firms of the area to place the public interest before any personal or private interest. Public-spirited individuals and business firms thus provide a good portion of the funds used by local development organizations in the United States.

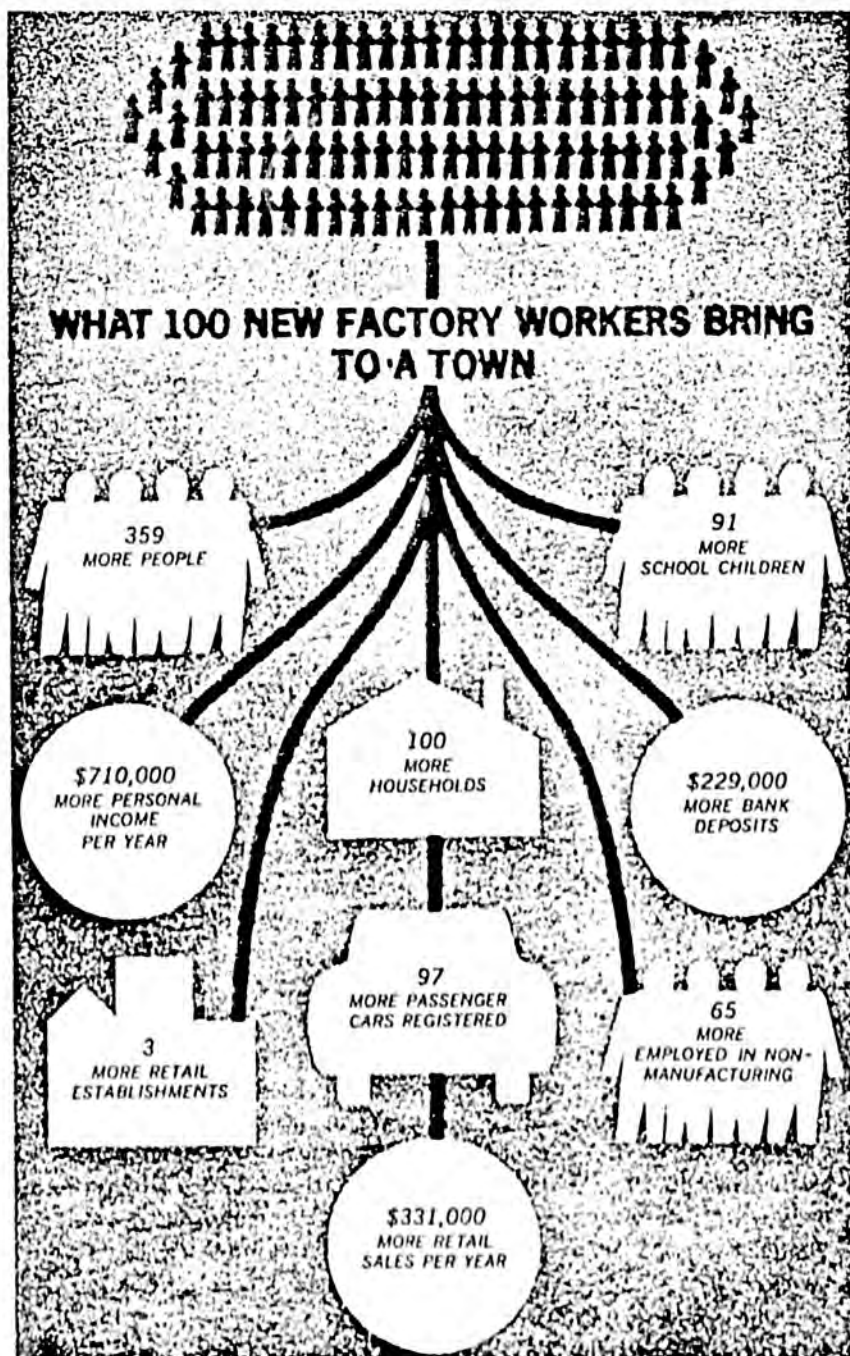
Through the Local Development Company Loan Program, SBA has helped cities and towns across the Nation to build a better and brighter future. It can do the same for your own community, if your community leaders will study the development company loan program, will determine how it can best serve their people, and will act promptly to take full advantage of it.

**FOR DETAILED INFORMATION ABOUT THE
LOCAL DEVELOPMENT COMPANY LOAN PROGRAM**

Write, visit or telephone the nearest SBA field office. These offices are located in the following cities:

Agana, Guam	Fairbanks, Alaska	Minneapolis, Minn.
Albany, N.Y.	Fargo, N. Dak.	Montpelier, Vt.
Albuquerque, N. Mex.	Fresno, Calif.	Nashville, Tenn.
Anchorage, Alaska	Gulfport, Miss.	Newark, N.J.
Atlanta, Ga.	Hartford, Conn.	New Orleans, La.
Augusta, Me.	Hato Rey, P.R.	New York, N.Y.
Baltimore, Md.	Helena, Mont.	Oklahoma City, Okla.
Birmingham, Ala.	Holyoke, Mass.	Omaha, Nebr.
Boise, Idaho	Honolulu, Hawaii	Philadelphia, Pa.
Boston, Mass.	Houston, Tex.	Phoenix, Ariz.
Buffalo, N.Y.	Indianapolis, Ind.	Pittsburgh, Pa.
Casper, Wyo.	Jackson, Miss.	Portland, Ore.
Charleston, W. Va.	Jacksonville, Fla.	Providence, R.I.
Charlotte, N.C.	Kansas City, Mo.	Richmond, Va.
Chicago, Ill.	Knoxville, Tenn.	Rochester, N.Y.
Cincinnati, Ohio	Las Cruces, N. Mex.	St. Louis, Mo.
Clarksburg, W. Va.	Las Vegas, Nev.	Salt Lake City, Utah
Cleveland, Ohio	Little Rock, Ark.	San Antonio, Tex.
Columbia, S.C.	Los Angeles, Calif.	San Diego, Calif.
Columbus, Ohio	Louisville, Ky.	San Francisco, Calif.
Concord, N.H.	Lower Rio Grande Valley, Tex.	Seattle, Wn.
Corpus Christi, Tex.	Lubbock, Tex.	Sioux Falls, S.D.
Dallas, Tex.	Madison, Wisc.	Spokane, Wn.
Denver, Colo.	Marquette, Mich.	Springfield, Ill.
Des Moines, Iowa	Marshall, Tex.	Syracuse, N.Y.
Detroit, Mich.	Memphis, Tenn.	Tampa, Fla.
Eau Claire, Wisc.	Miami, Fla.	Washington, D.C.
El Paso, Tex.	Milwaukee, Wisc.	Wichita, Kan.
		Wilmington, Del.

WHAT NEW INDUSTRIAL JOBS MEAN TO A COMMUNITY!



A SURVEY MADE
BY THE
CHAMBER OF COMMERCE
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their permission by
SMALL BUSINESS
ADMINISTRATION



SMA**SMALL MARKETERS AID No. 71
SMALL BUSINESS ADMINISTRATION**☐ **WASHINGTON D.C.** ☐

CHECKLIST

for going into business

**Thinking of starting a business?
Ask yourself these questions.**

You want to own and manage your own business. It's a good idea—provided you know what it takes and have what it takes.

Starting a business is risky at best. But your chances of making it go will be better if you understand the problems you'll meet and work out as many of them as you can before you start.

Here are some questions to help you think through what you need to know and do. Check each question if the answer is YES. Where the answer is NO, you have some work to do.

BEFORE YOU START

How about YOU?

Are you the kind of person who can get a business started and make it go? (Before you answer this question, use the worksheet on pages 4 and 5.) _____

Think about *why* you want to own your own business. Do you want to badly enough to keep you working long hours without knowing how much money you'll end up with? _____

Have you worked in a business like the one you want to start? _____

Have you worked for someone else as a foreman or manager? _____

Have you had any business training in school? _____

Have you saved any money? _____

How about the money?

Do you know how much money you will need to get your business started? (Use worksheets 2 and 3 on pages 6 and 12 to figure this out.) _____

Have you counted up how much money of your own you can put into the business? _____

Do you know how much credit you can get from your suppliers—the people you will buy from? _____

Do you know where you can borrow the rest of the money you need to start your business? _____

Have you figured out what net income per year you expect to get from the business? Count your salary and your profit on the money you put into the business. _____

Can you live on less than this so that you can use some of it to help your business grow? _____

Have you talked to a banker about your plans? _____

How about a partner

If you need a partner with money or know-how that you don't have, do you know someone who will fit—someone you can get along with? _____

Do you know the good and bad points about going it alone, having a partner, and incorporating your business? _____

Have you talked to a lawyer about it? _____

How about your customers?

Do most businesses in your community seem to be doing well? _____

Have you tried to find out whether stores like the one you want to open are doing well in your community and in the rest of the country? _____

Do you know what kind of people will want to buy what you plan to sell? _____

Do people like that live in the area where you want to open your store? _____

Do they need a store like yours? _____

If not, have you thought about opening a different kind of store or going to another neighborhood? _____

(More questions on page 8)

WORKSHEET NO. 1

Under each question, check the answer that says what you feel or comes closest to it. Be honest with yourself.

Are you a self-starter?

- ☐ I do things on my own. Nobody has to tell me to get going.
- ☐ If someone gets me started, I keep going all right.
- ☐ Easy does it, man. I don't put myself out until I have to.

How do you feel about other people?

- ☐ I like people. I can get along with just about anybody.
- ☐ I have plenty of friends—I don't need anyone else.
- ☐ Most people bug me.

Can you lead others?

- ☐ I can get most people to go along when I start something.
- ☐ I can give the orders if someone tells me what we should do.
- ☐ I let someone else get things moving. Then I go along if I feel like it.

Can you take responsibility?

- ☐ I like to take charge of things and see them through.
- ☐ I'll take over if I have to, but I'd rather let someone else be responsible.
- ☐ There's always some eager beaver around wanting to show how smart he is. I say let him.

How good an organizer are you?

- ☐ I like to have a plan before I start. I'm usually the one to get things lined up when the gang wants to do something.
- ☐ I do all right unless things get too goofed up. Then I cop out.
- ☐ You get all set and then something comes along and blows the whole bag. So I just take things as they come.

How good a worker are you?

- ☐ I can keep going as long as I need to. I don't mind working hard for something I want.
- ☐ I'll work hard for a while, but when I've had enough, that's it, man!
- ☐ I can't see that hard work gets you anywhere.

Can you make decisions?

- ☐ I can make up my mind in a hurry if I have to. It usually turns out O.K., too.
- ☐ I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
- ☐ I don't like to be the one who has to decide things. I'd probably blow it.

Can people trust what you say?

- ☐ You bet they can. I don't say things I don't mean.
- ☐ I try to be on the level most of the time, but sometimes I just say what's easiest.
- ☐ What's the sweat if the other fellow doesn't know the difference?

Can you stick with it?

- ☐ If I make up my mind to do something, I don't let *anything* stop me.
- ☐ I usually finish what I start—if it doesn't get fouled up.
- ☐ If it doesn't go right away, I turn off. Why beat your brains out?

How good is your health?

- ☐ Man, I *never* run down!
- ☐ I have enough energy for most things I want to do.
- ☐ I run out of juice sooner than most of my friends seem to.

Now count the checks you made.

How many checks are there beside the *first* answer to each question? _____

How many checks are there beside the *second* answer to each question? _____

How many checks are there beside the *third* answer to each question? _____

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to shore you up.

Now go back and answer the first question on page 2.

WORKSHEET NO. 2

ESTIMATED MONTHLY EXPENSES			
Item	Your estimate of monthly expenses based on sales of \$ _____ per year	Your estimate of how much cash you need to start your business (See column 3.)	What to put in column 2 (These figures are typical for one kind of business. you will have to decide how many months to allow for in your business.)
	Column 1	Column 2	Column 3
Salary of owner-manager	\$ _____	\$ _____	2 times column 1
All other salaries and wages			3 times column 1
Rent			3 times column 1
Advertising			3 times column 1
Delivery expense			3 times column 1
Supplies			3 times column 1
Telephone and telegraph			3 times column 1
Other utilities			3 times column 1
Insurance			Payment required by insurance company
Taxes, including Social Security			4 times column 1
Interest			3 times column 1
Maintenance			

Legal and other professional fees		3 times column 1
Miscellaneous		3 times column 1
STARTING COSTS YOU ONLY HAVE TO PAY ONCE		Leave column 2 blank
Fixtures and equipment		Fill in worksheet 3 on page 12 and put the total here
Decorating and remodeling		Talk it over with a contractor
Installation of fixtures and equipment		Talk to suppliers from who you buy these
Starting inventory		Suppliers will probably help you estimate this
Deposits with public utilities		Find out from utilities companies
Legal and other professional fees		Lawyer, accountant, and so on
Licenses and permits		Find out from city offices what you have to have
Advertising and promotion for opening		Estimate what you'll use
Accounts receivable		What you need to buy more stock until credit customers pay
Cash		For unexpected expenses or losses, special purchases, etc.
Other		Make a separate list and enter total
TOTAL ESTIMATED CASH YOU NEED TO START WITH	\$	Add up all the numbers in column 2

GETTING STARTED

Your building

- Have you found a good building for your store? _____
- Will you have enough room when your business gets bigger? _____
- Can you fix the building the way you want it without spending too much money? _____
- Can people get to it easily from parking spaces, bus stops, or their homes? _____
- Have you had a lawyer check the lease and zoning? _____

Equipment and supplies

- Do you know just what equipment and supplies you need and how much they will cost? (Worksheet 3 and the lists you made for it should show this.) _____
- Can you save some money by buying secondhand equipment? _____

Your merchandise

- Have you decided what things you will sell? _____
- Do you know how much or how many of each you will buy to open your store with? _____
- Have you found suppliers who will sell you what you need at a good price? _____
- Have you compared the prices and credit terms of different suppliers? _____

Your records

- Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you? _____
- Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers but not more than you can sell? _____
- Have you figured out how to keep your payroll records and take care of tax reports and payments? _____

- Do you know what financial statements you should prepare? _____
- Do you know how to use these financial statements? _____
- Do you know an accountant who will help you with your records and financial statements? _____

Your store and the law

- Do you know what licenses and permits you need? _____
- Do you know what business laws you have to obey? _____
- Do you know a lawyer you can go to for advice and for help with legal papers? _____

Protecting your store

- Have you made plans for protecting your store against thefts of all kinds—shoplifting, robbery, burglary, employee stealing? _____
- Have you talked with an insurance agent about what kinds of insurance you need? _____

Buying a business someone else has started

- Have you made a list of what you like and don't like about buying a business someone else has started? _____
- Are you sure you know the real reason why the owner wants to sell his business? _____
- Have you compared the cost of buying the business with the cost of starting a new business? _____
- Is the stock up to date and in good condition? _____
- Is the building in good condition? _____
- Will the owner of the building transfer the lease to you? _____
- Have you talked with other businessmen in the area to see what they think of the business? _____
- Have you talked with the company's suppliers? _____
- Have you talked with a lawyer about it? _____

MAKING IT GO

Advertising

Have you decided how you will advertise? (Newspapers—
posters—handbills—radio—by mail?) _____

Do you know where to get help with your ads? _____

Have you watched what other stores do to get people to buy? _____

The prices you charge

Do you know how to figure what you should charge for each
item you sell? _____

Do you know what other stores like yours charge? _____

Buying

Do you have a plan for finding out what your customers want? _____

Will your plan for keeping track of your inventory tell you
when it is time to order more and how much to order? _____

Do you plan to buy most of your stock from a few suppliers
rather than a little from many, so that those you buy from
will want to help you succeed? _____

Selling

Have you decided whether you will have salesclerks or self-
service? _____

Do you know how to get customers to buy? _____

Have you thought about why you like to buy from some
salesmen while others turn you off? _____

Your employees

If you need to hire someone to help you, do you know where
to look? _____

Do you know what kind of person you need? _____

Do you know how much to pay? _____

Do you have a plan for training your employees? _____

Credit for your customers

Have you decided whether to let your customers buy on credit? _____

Do you know the good and bad points about joining a credit-card plan? _____

Can you tell a deadbeat from a good credit customer? _____

A FEW EXTRA QUESTIONS

Have you figured out whether you could make more money working for someone else? _____

Does your family go along with your plan to start a business of your own? _____

Do you know where to find out about new ideas and new products? _____

Do you have a work plan for yourself and your employees? _____

Have you gone to the nearest Small Business Administration office for help with your plans? _____

If you have answered all these questions carefully, you've done some hard work and serious thinking. That's good. But you have probably found some things you still need to know more about or do something about.

Do all you can for yourself, but don't hesitate to ask for help from people who can tell you what you need to know. Remember, running a business takes guts! You've got to be able to decide what you need and then go after it.

Good luck!

WORKSHEET NO. 3

LIST OF FURNITURE, FIXTURES, AND EQUIPMENT

Leave out or add items to suit your business. Use separate sheets to list exactly what you need for each of the items below.	If you plan to pay cash in full, enter the full amount below and in the last column.	If you are going to pay by installments, fill out the columns below. Enter in the last column your downpayment plus at least one installment.			Estimate of the cash you need for furniture, fixtures, and equipment
		Price	Downpayment	Amount of each installment	
Counters	\$	\$	\$	\$	\$
Storage shelves, cabinets					
Display stands, shelves, tables					
Cash register					
Safe					
Window display fixtures					
Special lighting					
Outside sign					
Delivery equipment if needed					
TOTAL FURNITURE, FIXTURES, AND EQUIPMENT (Enter this figure also in worksheet 2 under "Starting Costs You Only Have To Pay Once," page 7.)					\$

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**BUSINESS
PLAN FOR
SMALL CONSTRUCTION FIRMS**

SUMMARY

A business plan can provide the owner-manager or prospective owner-manager of a small construction firm with a pathway to profit. This *Aid* is designed to help an owner-manager in drawing up his business plan.

In building a pathway to profit you need to consider the following questions: What business am I in? What do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? How much money is needed to operate my firm? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

No one can answer such questions for you. As the owner-manager you have to answer them and draw up *your* business plan. The pages of this *Aid* are a combination of text and workspaces so you can write in the information you gather in developing *your* business plan—a logical progression from a commonsense starting point to a commonsense ending point.

First Printing:
January 1974

A NOTE ON USING THIS AID

It takes time and energy and patience to draw up a satisfactory business plan. Use this *Aid* to get your ideas and the supporting facts down on paper. And, above all, make changes in your plan on these pages as that plan unfolds and you see the need for changes.

Bear in mind that anything you leave out of the picture will create an additional cost, or drain on your money, when it unexpectedly crops up later on. If you leave out or ignore too many items, your business is headed for disaster.

Keep in mind, too, that your final goal is to put your plan into action. More will be said about this step near the end of this *Aid*.

WHAT'S IN THIS FOR ME?

The hammer, trowel, pliers, and wrench are well known tools of the construction industry. They have their various uses and are needed to get the work done. Management is another tool that the owner-manager of a construction firm must use. Each job must be planned and organized if the firm is to run smoothly and efficiently. The business plan will help you increase your skill as a manager.

Because of the diversification in the construction industry, you may be engaged in residential, commercial, or industrial construction. You may be either a general or specialty contractor. But, the same basic managerial skills are needed. This plan will serve as a guide to the various areas that you as a manager will be concerned with. As you work through this plan, adapt it to your own particular needs.

When complete, your business plan will help guide your daily business activities. Because, when you know where you want to go, it is easier to plan what you must do to get there. Also, the business plan can serve as a communications device which will orient key employees, suppliers, bankers, and whoever else needs to know about your goals and your operations.

Whether you are just thinking about starting your own firm or have already started, the business plan can help you. As your skill as a manager increases so will the number of jobs you can effectively control. The careful completion of this plan may point out your limitations. This is important. The successful contractor must not only know his business thoroughly, but must also know his limitations and seek professional advice in these areas.

WHY AM I IN BUSINESS?

Most contractors are in business to make money and be their own boss. Very important reasons. But don't forget, no one is likely to stay in business unless he also satisfies a consumer need at a competitive price. Profit is the reward for satisfying consumer needs in a competitive economy.

In the first years of business, your profits may seem like a small return for the long hours, hard work, and responsibility of being the boss. But there are other rewards associated with having your own business. For example, you may find satisfaction in helping to put groceries on your employees' tables. Or, maybe your satisfaction will come from building a business you can pass on to your children.

Why are you in business? _____

WHAT BUSINESS AM I IN?

At first glance this may seem like a rather silly question. You may say, "If there is one thing I'm sure of, it's what business I'm in." But wait. Let's look further into the question. Suppose you say, "I build houses." Are you a speculative or custom builder? Are you a remodeler? Are you a subcontractor? Can you schedule a complete job and make money? By planning according to this decision, you should realize the value of this type of thinking in dollars.

<i>My Product</i>	<i>Types of Customers</i>	<i>Location of Customers</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

Now that you have described what you want in terms of customer and location, what is it about your operation that will make these people want to buy your service? For instance, quality work, competitive prices, guaranteed completion dates, effective advertising, unique design, and so on.

Write your answer here. _____

ADVERTISING

You have determined what it is you're marketing, who is going to buy it, and why they're going to buy it. Now you have to decide on the best way to tell your prospective customers about your product.

What should your advertising tell prospective customers? _____

What form should your advertising take? Ask the local media (newspapers, radio and television stations, and printers of direct mail pieces) for information about their services and the results they offer for your money.

How you spend advertising money is your decision, but don't fall into the trap that snares many businessmen. As one consultant describes this pitfall: It is amazing the way many businessmen consider themselves experts on advertising copy and media selection without any experience in these areas.

The following workblock should be useful in determining what advertising is needed to *sell* your construction service.

Form of Advertising	Size of Audience	Frequency of Use		Cost of A single ad		Estimated Cost
_____	_____	_____	×	\$ _____	=	\$ _____
_____	_____	_____	×	\$ _____	=	\$ _____
_____	_____	_____	×	\$ _____	=	\$ _____
_____	_____	_____	×	\$ _____	=	\$ _____
Total						\$ _____

COMPETITION

The competition in the construction industry often results in low profit margins. However, if you are just starting or are a relatively small firm, this does not put you at a disadvantage. The smaller firm can often compete with the bigger outfit because of lower overhead expense. For example, your office may be in your home, saving that expense. You can often work right out of your truck, saving the expense of a field office.

Competition is largely price competition, although a good reputation for quality and efficiency is beneficial. But, the result of any competition is a high failure rate for poor planners and poor performers. This points out the need for careful planning, particularly in the areas of estimating and bidding.

In order to see what you are up against competition-wise, answer the following questions so you can plan accordingly.

Who will be your major competitors? _____

How will you compete against them? _____

SALES STRATEGY

The market for the construction industry is unique in many ways. As a contractor you will find your market to be dependent on such variables as the state of the economy, local employment stability, the seasonality of the work, labor relations, good subcontractors and interest rates. Also, as a contractor, you will find that you are unavoidably dependent on others, such as customers or financing institutions for payment, and other contractors for performance of their work. You will also want to take your cash flow into consideration when you estimate and bid on a job. The money must come in time to meet your own obligations.

Estimating

Whether an owner-manager in the construction business succeeds—makes a profit or not—depends to a great extent on his bidding practices. Therefore, you must make careful and complete estimates.

Many of the more successful contractors attribute their success to their estimating procedures. They build the job on paper before they submit a bid. In doing this, they break the job down into work units and pieces of material. Then, they assign a cost to each item. The total of these costs will be the direct construction cost. You must also figure on the indirect costs of a job. For instance, you will have overhead expenses such as the cost of maintaining your office, trucks, license fees, and so on. The estimate should also consider any interest charges you will pay on money you borrow to get the job under way. You have insurance fees to pay, surety bond premiums, travel expenses, advertising costs, office salaries, lawyer's fees, and so on. These must also be paid out of your gross income.

Trade associations, as one of their services, often provide their members with a package of business forms. The cost estimate form would be included in this package. The obvious advantage in using these forms is that they are specifically designed for the particular trade.

Regardless of what estimate form you use, it should include such headings as "activity," "material," "labor," "subcontracts," and "estimated cost." And it should have areas for direct construction costs, indirect construction costs, overhead, and profit.

In addition, a column for the actual cost compared to the estimate of a specific work item will make this form an invaluable record. Here you would have a handy reference to evaluate the profitability of the job after it is complete. It would show you where your estimate was high or low, and enable you to adjust future bids on similar projects. This added column will also be necessary when it comes time for your financial accounting.

Bidding

Your decision to bid or not to bid on a particular job should be determined by several factors. First, do you have the capacity to complete the job on schedule and according to specifications. Beware of overextending yourself out of business. You have to operate within your known capabilities. On any job, you must follow all the details of the work yourself, or find competent supervision.

Bonding

The practice of bonding has been a traditional way of life for anyone engaged in contract construction. Bonding companies provide bonds for a certain percentage of the contract price. There are three main types of bonds:

(1) Bid bonds assure that the bidder is prepared to perform the work according to the terms of the contract if he is successful in his bid.

(2) Performance bonds assure completion of the job according to plans and specifications.

(3) Payment bonds assure anyone dealing with the bonded contractor that he will be paid.

The effect that bonding companies have had on contractors is evident in the area of competition. The customer, by requiring that the contractor is bonded, is more or less assured of adequate completion of the job. Therefore, contractors are compared on a basis of price. Also, banks are often more lenient to bonded contractors.

Bonding companies usually require the contractor to have proven experience and the organizational financial capacity to complete the project. This can be a real stumbling block to the new construction firm.

With the widespread use of bonding requirements, the competition that is generated often leads the inexperienced contractor to submit bids that are unrealistically low. One or two such mistakes often can spell bankruptcy.

Will you need bonding _____ often, _____ occasionally, _____ seldom?

Where will you get your bond? _____

What will the terms be? _____

The Small Business Administration has a surety bond program designed to help small and emerging contractors who might have previously been unable to get bonding. SBA is authorized to guarantee up to 90 percent of losses incurred under bid, payment, or performance bonds on contracts up to \$500,000. Applications for this assistance are available from any SBA field office.

PLANNING THE WORK

When your marketing efforts result in jobs to be done, the problem becomes one of production. How will you plan the work so that the job gets done on time?

No matter how you plan the work, your plans should assist you in two specific ways: (1) they should help you maintain your production schedule, and (2) they should allow you to adjust production to meet changed conditions, such as bad weather.

In planning the work, keep in mind two things: (1) the timing of starts, and (2) the timing of the various steps in the construction process. The timing of starts will depend on the size and capacity of your company. If you have sufficient help and sufficient supervisory personnel, it will be possible for you to engage in as many projects as you can *control*. The size and nature of the job must be considered here also.

The timing of the steps of construction (the work schedule) will show the various operations in sequence and assign a working day designation to each with a space for the calendar day designation. Several operations may be in progress simultaneously. Such a work schedule will show at a glance whether the work is progressing as scheduled. It will also indicate the materials that will be needed for the following day or week. Thus, it is a handy managerial control to assure that men and materials are at the right place at the right time. Many companies offer commercial scheduling boards designed for this purpose.

Below is a partial work schedule to demonstrate how yours may be set up. Note that there is a column that can be filled in with either a solid mark or an "X" to indicate either partial or completed work. When you look at a particular calendar day, an "X" next to it would indicate that you're on schedule. An open square indicates a delay. Here, then, is a convenient way to see trouble spots that are causing delays and it gives you an opportunity to take corrective action.

Activity	Working Day		Calendar Day	Complete
	Start	Finish		
1. Layout	1	1	15	☒
2. Foundation Forms	1	2	16	☒
3. Foundation Pour	3	3	19	☒

(indicates $\frac{3}{4}$ complete)

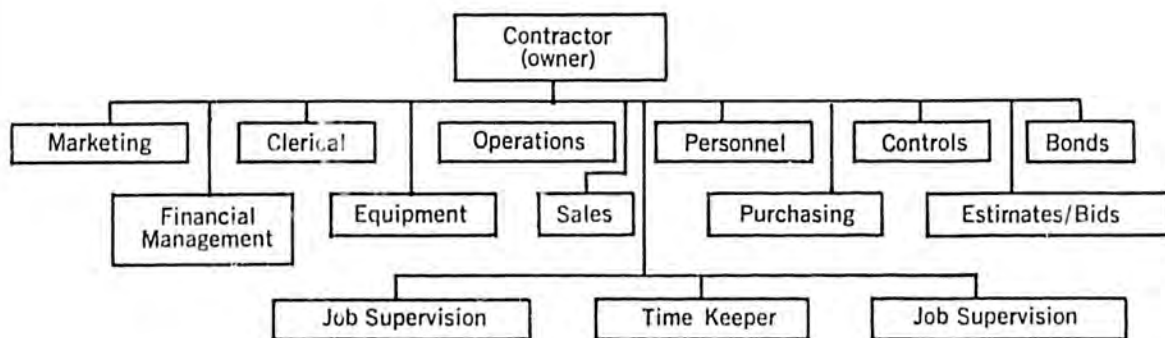
You should save your work schedules. They will form the basis for future estimates. For example, if you are estimating a particular job, you can go to your files and pull out an old schedule for a similar job. Here, at a glance, you have information on the steps of production, an indication of what materials you'll need and when you'll need them, an indication of how long the job will take, and any peculiarities that may affect the completion of the job. When you consider all these things, you'll be more likely to submit an accurate bid.

By carefully keeping such records, you will also have an indication of how many workers you will need. Perhaps, if the work falls behind schedule, you may need to bring more workers to the job to assure scheduled completion and avoid a possibly larger financial loss from penalization, if that is called for in your contract. Also, such records will give you an indication of the organizational structure you may need for your firm.

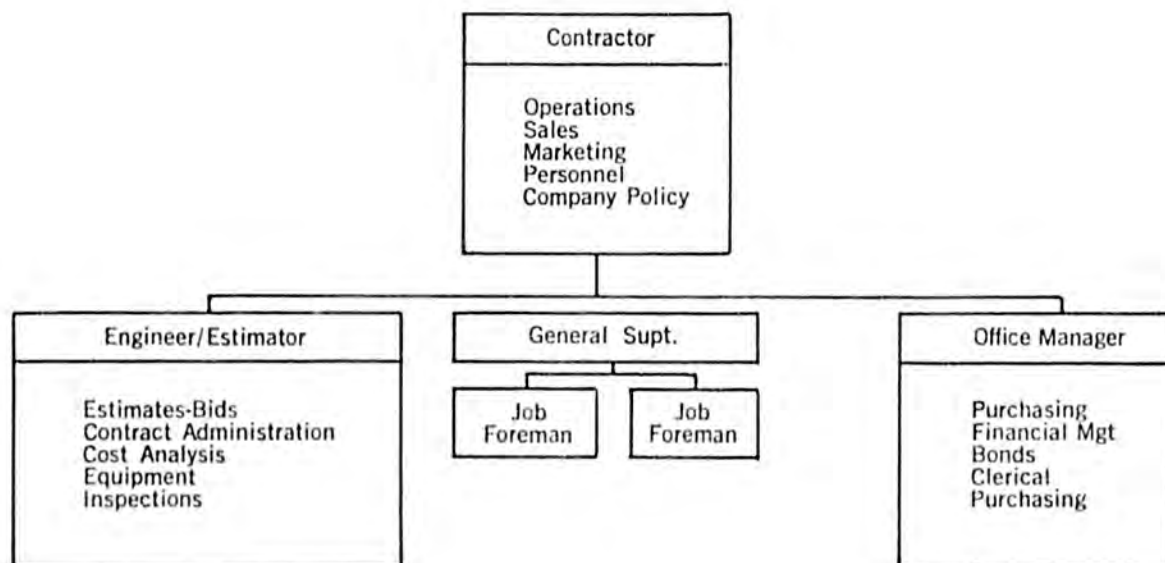
GETTING THE WORK DONE

If your firm is going to run efficiently, you will need organization. Organization is essential because as your company grows you will not be able to do all the work. You have to delegate work, responsibility, and authority. The organization chart is a useful device in getting this done. It shows quite clearly who is responsible for the major activities of your business.

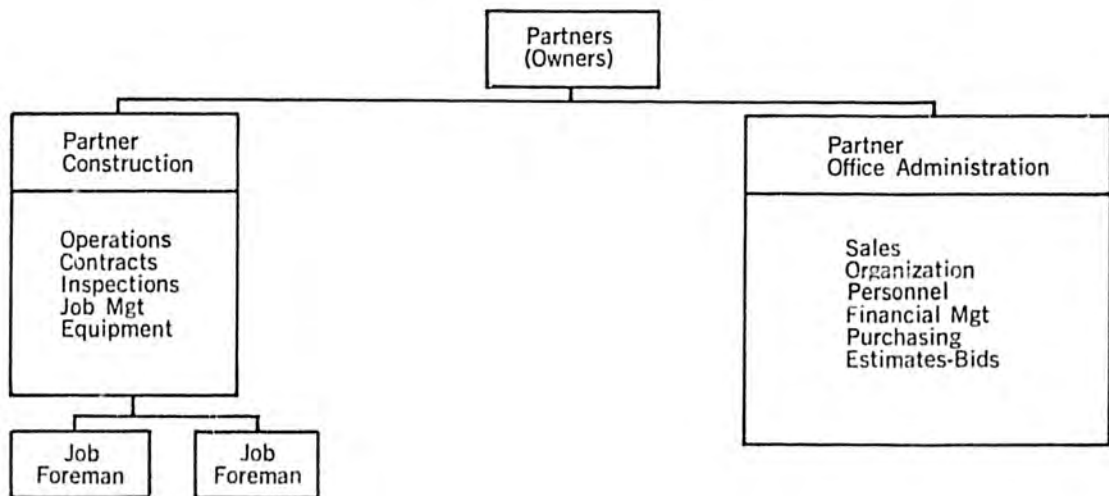
At first, many construction companies are one man shows. It is up to the owner to do almost everything. In this case the organization chart might look something like this:



As the company grows, perhaps specialists are added, such as an engineer/estimator, an office manager, and a general superintendent. The organization chart then begins to look something like this:



Often, people with complementary experience and skills, such as work experience and office experience will form a partnership. The organization chart will look like this:



In the space that follows, draw your organization chart.

WHAT ARE YOUR PERSONNEL REQUIREMENTS?

Will you carry a permanent crew or hire workers as the need arises? _____

Will you use union or nonunion labor? _____

How many workers will you need? _____

How many subcontractors will you need? _____

What is the hourly rate you will pay? _____

What will fringe benefits cost? _____

Will you supervise the work yourself or hire a foreman? _____

If you hire a foreman, what will his salary be? _____

Will you need clerical help? _____ What will it cost? _____

EQUIPMENT

What special equipment will you need (assuming that your work force will supply their own hand tools)?

<i>Equipment</i>	<i>Rent</i>	<i>Buy</i>	<i>Your Cost</i>
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

Will you need an office or use your home? _____

If you will need an office, what will the rent and other expenses cost? _____

PUT YOUR PLAN INTO DOLLARS

Just as with the other aspects of managing a construction business, the basic unit of financial management is the job. The financial aspects of a job must be planned as carefully as the actual construction. The payment for each job must cover the direct and indirect construction costs as well as the allocated share of overhead.

Accounting requirements will vary from company to company and from trade to trade. Your accountant will help you set up the accounting system which will best meet your needs.

However, you must make the overall plans yourself. You must develop the goals necessary to guide and manage your business. This overview will prove invaluable in establishing a good working relationship with your banker (or other lender) and bonding company.

In your financial planning, the first consideration is where the dollars will come from. In dollars, how much business (sales) will you be able to do in the next 12 months? \$ _____

EXPENSES

In connection with annual sales volume, you need to think about expenses. For example, if you plan to do \$100,000 worth of work, how much will it cost you to do this amount of business? And even more important, what will be left over as profit at the end of the year?

Profit is your pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue year after year and pay back the money and time you invest in it. Profit helps your firm to be strong—to have a financial reserve for any lean periods.

The "Expenses Worksheet" on page 14 is designed to help you figure your yearly expenses. To use this worksheet, you need to get one set of figures—the operating ratios for your line of business. If you don't have these figures, check with the trade association which serves your area of the construction industry or with sources such as those listed in *Ratio Analysis for Small Business*. (For ordering details, see "For Further Information" on page 19 of this *Aid*).

MATCHING MONEY AND EXPENSES

After you have planned for your month to month expenses, the next question is: Will there be enough money coming in to meet these expenses and to sustain your company in the event that there is down time until your next job?

The cash forecast is a management tool which can eliminate much of the anxiety that can plague you during lean months. Use the worksheet, "Estimated Cash Forecast," or ask your accountant to use it, to estimate the amounts of cash that you expect to flow through your business during the next 12 months.

Remember that the expenses of buying the materials and supplies for a particular job may occur a month or two before a payment is made. The "Estimated Cash Forecast" should show this.

ESTIMATED CASH FORECAST

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Expected Available Cash												
Cash Balance												
Expected Receipts												
Job A												
Job B												
Job C												
Bank Loans												
Total Expected Cash												
Expected Cash Requirements												
Job A												
Job B												
Job C												
Equipment Payments												
Taxes												
Insurance (including surety bond payments)												
Overhead												
Loan Repayments												
Total Cash Required												
Cash Balance												
Total Loans Due To Bank												

	Sample Figures for Specialty Contractors*	% of Your Sales	Your Annual Sales Dollar	Your Dollars JAN	Your Dollars FEB	Your Dollars MAR
Sales	100.00%	—	—	—	—	—
Cost of sales	44.45	—	—	—	—	—
Gross profit	55.55	—	—	—	—	—
Controllable expenses						
Outside labor	1.15	—	—	—	—	—
Operating supplies	2.34	—	—	—	—	—
Gross wages	22.78	—	—	—	—	—
Repairs and maintenance	.59	—	—	—	—	—
Advertising	1.12	—	—	—	—	—
Car and delivery	2.04	—	—	—	—	—
Bad debts	.03	—	—	—	—	—
Administrative and legal	.48	—	—	—	—	—
Miscellaneous expense	1.03	—	—	—	—	—
Total controllable expense	31.56	—	—	—	—	—
Fixed expenses						
Rent	1.00	—	—	—	—	—
Utilities	1.42	—	—	—	—	—
Insurance	1.16	—	—	—	—	—
Taxes and licenses	.85	—	—	—	—	—
Interest	.10	—	—	—	—	—
Depreciation	1.65	—	—	—	—	—
Total fixed expenses	6.18	—	—	—	—	—
Total expenses	37.74	—	—	—	—	—
Net profit (before income tax)	17.81	—	—	—	—	—

* These percentages are taken from *Barometer of Small Business*, Accounting Corporation of America (see "For Further Information," page 19 of this *Aid*). These figures are presented *only as a sample* and refer to specialty contractors with an annual gross volume between \$50,000 and \$200,000. The percentages vary from one business to another.

WORKSHEET

[illegible]

IS ADDITIONAL MONEY NEEDED?

In your planning you may find periods when you will be short of cash. For example, when you start a job you will need materials and supplies. Perhaps it may be a month or two before your first payment. What do you do in the interim if trade credit will not completely satisfy your cash needs?

Your bank may be able to help with a short term loan. If a banker is to lend you money on either a short or long term, he will want to know whether your company's financial condition is weak or strong. He will ask to see a balance sheet.

A blank balance sheet is included on page 16. Even if you don't need to borrow, use it. Or, have your accountant use it to draw the "picture" of your firm's financial condition. Moreover, if you don't need to borrow money, you may want to show your plan to the bank that handles your company's account. It is never too early to build good relations with your banker. For the time may come when you will have to borrow.

CURRENT BALANCE SHEET

for
(name of your firm)

as of _____
(date)

Assets

Current Assets	
Cash	\$ _____
Receivables	\$ _____
Cost of jobs in progress	\$ _____
Inventories of supplies and tools	\$ _____
Total Current Assets	\$ _____
Fixed Assets	\$ _____
Other Assets	\$ _____
Total Assets	\$ _____

Liabilities

Current Liabilities	
Notes payable	\$ _____
Accounts payable	\$ _____
Miscellaneous current liabilities	\$ _____
Total Current Liabilities	\$ _____
Equipment Contracts	\$ _____
Owner's equity	\$ _____
Total Liabilities	\$ _____

CONTROL AND FEEDBACK

To make your plan work you will need feedback at the various stages of your management process. When you approach a job as a manager, you will need to plan the job, direct the job, and control the job. Throughout this process, you will need adequate financing. Thus, whatever management controls you set up should supply you with the information you need to keep your operation "on the money."

During the planning stage, you will need to carefully calculate your bid estimate. To direct the job, you will need your job cost analysis to make sure that the job is going to make a profit. And, to control the job, your forces must be organized. This requires the organized production of any given job (work schedule), competent personnel, and your personal follow-up to insure efficient performance.

IS YOUR PLAN WORKABLE?

Now that you've planned this far, step back and take a look at your plan. It is realistic? Can you do enough business to make a living?

Now is the time to revise your plan if it isn't workable, not after you've invested your time and money. If you feel that some revisions are needed before you start your own business, then make them. Go back to the cash flow and adjust the figures. Better, show your plan to someone who has not had a hand in making out your business plan. Your banker, contact man at SBA, or any outside advisor may be able to point out your strong points which if emphasized could turn into dollars.

If you have strong doubts about your business or your ability to run it, it might be better to delay going into business until you feel as comfortable with the tools of management as you are with the tools of your trade.

KEEPING YOUR PLAN UP TO DATE

How many people in this world can predict the future? Very few indeed! You can expect things to change. You can expect circumstances to be different from what you expected. This is only natural. The difference between successful and unsuccessful planning is often only the ability to keep alert and watch for changes. Stay on top of changing conditions and adjust your plan accordingly.

In order to adjust his plan to account for changes, an owner-manager must:

1. Be alert to the changes that come about in his industry, his market, and in his customers.
2. Check his plan against these changes.
3. Determine what revisions, if any, are needed in his plan.

Whatever methods you use to keep up with changing conditions is up to you. Once a month or so, go over your plan. See whether it needs adjusting. If revisions are needed, make them and put them into action.

When your plan is as near on target as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a pleasant dream that evaporates over the breakfast coffee.

What else needs to be done? Look for positive action steps that will get your business rolling. For example, where and how will you get whatever licenses you need to be a contractor? (These requirements differ from state to state. A summary of licensing, prequalification, and tax information may be found in *Summary of State Regulations and Taxes Affecting General Contractors*, published annually by the American Insurance Association. See "For Further Information," page 19).

Action

[illegible]

FOR FURTHER INFORMATION

The following references provide additional information about the various aspects of a business plan. This list is necessarily brief and selective. However, no slight is intended towards authors whose works are not mentioned. Note, prices are subject to change.

Annual Statement Studies. The Robert Morris Associates, Philadelphia National Bank Building, Philadelphia, Pa. 19107.

Barometer of Small Business. Published semiannually. Yearbook for previous year each March. Midyear published each September. Both can be obtained as an annual subscription.

Key Business Ratios. Dun & Bradstreet, Inc., 99 Church Street, New York, N.Y. 10007 (usually available in local Dun & Bradstreet offices)

National Trade and Professional Associations of the United States. Columbia Books, Inc., 734 15th Street, NW, Room 601, Washington, D.C. 20005. Published annually.

Summary of State Regulations and Taxes Affecting General Contractors. The American Insurance Association 85 John Street, New York, N.Y. 10038.

Up Your Own Organization by Donald Dible. 1971. The Entrepreneur Press, Mission Station, Drawer 2759, Santa Clara, Cal. 97051.

The following booklets are published by the Small Business Administration. They can be examined in the nearest SBA office or ordered from the Superintendent of Documents, Washington, D.C. 20402.

A Handbook of Small Business Finance. SBMS No. 15, 7th ed. 1965.

Ratio Analysis for Small Business. SBMS No. 20. 3d ed. 1970.

Guides for Profit Planning. SBMS No. 25, 1960.

Starting and Managing a Small Building Business. S&M No. 5, 1962.

The following *Small Marketers Aids* and *Management Aids* are published by the Small Business Administration and are available free at the nearest SBA office.

"Checklist for Going Into Business"—SMA 71

"Steps in Meeting Your Tax Obligations"—SMA 142

"Getting the Facts for Income Tax Reporting"—SMA 144

"Sound Cash Management and Borrowing"—SMA 147

"Insurance Checklist for Small Business"—SMA 148

"Is Your Cash Supply Adequate?"—MA 174

"Delegating Work and Responsibility"—MA 191

"Keep Pointed Toward Profit"—MA 206

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SMALL BUSINESS
ADMINISTRATION

SMALL
MARKETERS AID

No. **153**

BUSINESS PLAN FOR SMALL SERVICE FIRMS



By Staff Members, Education Division, Office of Management Assistance,
Small Business Administration

SUMMARY

A business plan can provide the owner-manager or prospective owner-manager of a small service firm with a pathway to profit. This *Aid* is designed to help an owner-manager in drawing up his business plan.

In building a pathway to profit you need to consider the following questions: What business am I in? What services do I provide? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my firm? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help? And many more.

No one can answer such questions for you. As the owner-manager you have to answer them and draw up *your* business plan. The pages of this *Aid* are a combination of text and workspaces so you can write in the information you gather in developing your business plan—a logical progression from a commonsense starting point to commonsense ending point.

FIRST PRINTING:
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A NOTE ON USING THIS AID

It takes time and energy and patience to draw up a satisfactory business plan. Use this *Aid* to get your ideas and the supporting facts down on paper. And, above all, make changes in your plan on these pages as that plan unfolds and you see the need for changes.

Bear in mind that anything you leave out of the picture will create an additional cost, or drain on your money, when it crops up later on. If you leave out or ignore enough items, your business is headed for disaster.

Keep in mind, too, that your final goal is to put your plan into action. More will be said about this near the end of this *Aid*

WHAT'S IN THIS FOR ME?

You may be thinking: Why should I spend my time drawing up a business plan? What's in it for me? If you've never drawn up a plan, you are right in wanting to hear about the possible benefits *before* you do your work.

A business plan offers at least four benefits. You may find others as you make and use such a plan. The four are:

(1) The first, and most important, benefit is that a plan gives you a path to follow. A plan makes the future what you want it to be. A plan with goals and action steps allows you to guide your business through turbulent economic seas and into harbors of your choice. The alternative is drifting into "any old port in a storm."

(2) A plan makes it easy to let your banker in on the action. By reading, or hearing, the details of your plan he will have real insight into your situation if he is to lend you money.

(3) A plan can be a communications tool when you need to orient sales personnel, suppliers, and others about your operations and goals.

(4) A plan can help you develop as a manager. It can give you practice in thinking about competitive conditions, promotional opportunities, and situations that seem to be advantageous to your business. Such practice over a period of time can help increase an owner-manager's ability to make judgments.

WHY AM I IN BUSINESS?

Many enterprising Americans are drawn into starting their own business by the possibilities of making money and being their own boss. But the long hours, hard work, and responsibilities of being the boss quickly dispel any preconceived glamor.

Profit is the reward for satisfying consumer needs. But, it must be worked for. Sometimes a new business might need two years before it shows a profit. So where, then, are reasons for having your own business?

Every small business owner-manager will have his own individual reasons for being in business. For some, satisfaction comes from serving their community. They take pride in serving their neighbors and giving them quality work which they stand behind. For others, their business offers them a chance to contribute to their employees' financial security.

There are as many rewards and reasons for being in business as there are business owners. Why are you in business?

WHAT BUSINESS AM I IN?

In making your business plan, the first question to consider is: What business am I really in? At the first reading this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their savings because they are confused about the business they are in.

The recent changeover of barbershops from cutting hair to styling hair is one example of thinking about what business you're really in.

Consider this example, also. Joe Riley* had a small radio and tv store. He thought of his business as a retail store though he also serviced and repaired anything he sold. As his suburb grew, appliance stores emerged and cut heavily into his sales. However, there was an increased call for quality repair work.

When Mr. Riley considered his situation, he decided that he was in the repair business. As a result of thinking about what business he was really in, he profitably built up his repair business and has a contract to take care of the servicing and repair business for one of the appliance stores.

Decide what business you are in and write your answer in the following spaces. To help you decide, think of the answers to questions such as: What inventory of parts and materials must you keep on hand? What services do you offer? What services do people ask for that you do not offer? What is it you are trying to do better, more of, or differently from your competitors?

*All names in *Aids* are disguised.

MARKETING

When you have decided what business you're in, you have made your first marketing decision. Now you are ready for other important considerations.

Successful marketing starts with the owner-manager. He has to know his service and the needs of his customers in the area he serves.

The narrative and work blocks that follow are designed to help you work out a marketing plan for your firm. The blocks are divided into three sections:

- Section One—Determining the Sales Potential
- Section Two—Attracting Customers
- Section Three—Selling to Customers