Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 521 of the 128th G.A. **Date**: May 21, 2010

Status: As Introduced **Sponsor**: Reps. Goyal and Garland

Local Impact Statement Procedure Required: No — No local cost

Contents: Creates the Small Business Working Capital Loan Program

State Fiscal Highlights

- The state would forgo interest earnings on up to $100 million invested with financial institutions participating in the Small Business Working Capital Loan Program.
- This forgone interest would be used to provide an incentive for lenders to issue loans to small businesses under the program. Presumably, the financial institutions would also use the state's forgone interest earnings as a funding reserve fund to protect against losses or defaults on loans made under the program.
- The Ohio Department of Development's Entrepreneurship and Small Business Division could incur some additional GRF costs to oversee the program. These costs would include contracting with program administrators and developing program guidelines.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Overview

The bill creates the Small Business Working Capital Loan Program, which uses money invested by the Treasurer of State in participating financial institutions in order to provide loans to eligible small businesses for working capital needs. Under the bill, the Treasurer of State is permitted to invest up to $100 million in state funds with participating financial institutions in order to provide capital backing for the program. To participate, an institution must enter into an agreement with the Ohio Department of Development (ODOD) that sets out the terms and conditions of the institution's participation. Under such an agreement, the bill permits the state to forgo interest payments accrued on the amount invested with an institution if the Director of Development determines that it will "provide small businesses the access to credit they need to create or preserve jobs." The forgone interest earnings would act as an incentive for the institution to provide loans to eligible small businesses that might otherwise represent too great a loan risk.

The bill authorizes ODOD to select up to two private, for-profit, Ohio-based investment firms to act as program administrators. The program administrator would review and approve applications for loans from eligible small businesses, defined in the bill as a business having between $1 million and $50 million in total annual sales. In turn, the program administrator would submit all necessary application information to a participating financial institution at which state money has been invested for the purposes of the program. The bill also allows a program administrator to commit its own capital as part of the loan made to an eligible business.

Finally, the bill permits ODOD to use any federal money made available to the state for the purpose of providing working capital assistance to small businesses as part of the Small Business Working Capital Loan Program. If such federal funds are restricted by federal law from being used for the purposes laid out in the bill, then the bill grants ODOD the authority to modify the program in order to meet the federal guidelines.

Issuance of loans

In addition to serving as an inducement for depository institutions to make loans to small businesses, the interest forgone on the state's investment and retained by the institutions would serve as a reserve against any losses under the program. In other words, the state would forgo any potential interest earnings on the principal it invests with participating lenders in the expectation that increased lending to small businesses would provide an economic benefit to the state. In addition, the bill allows a program administrator to commit its own capital as part of a loan under the program, subject to terms laid out by ODOD. Presumably, lenders and program administrators would be wholly responsible for administering loans and collecting loan repayments. However, the bill does not contain specific provisions or procedures for handling loan defaults. Presumably, the depository institution would use the state's forgone interest earnings to cover against losses or defaults on any loans made, although this is not explicit in the bill.

Administrative costs

Presumably, the loan program would be overseen by ODOD's Entrepreneurship and Small Business Division. Under the bill, the agency would be responsible for issuing guidelines for the program, although these would not be subject to the administrative rule review process under Chapter 119. of the Revised Code. The bill requires the guidelines to include eligibility criteria for the receipt of a loan, the minimum and maximum amounts of loans that can be issued, and the terms under which a program administrator may commit its own capital for a loan. The bill also requires ODOD to contract with up to two investment firms to act as program administrators, as well as enter into agreements with participating financial institutions. The amounts to be paid to each administrator would be determined by ODOD. Presumably, ODOD's Entrepreneurship and Small Business Division would be responsible for overseeing the selection process and supervising program administrators. All of the costs that the Entrepreneurship and Small Business Division incurs for administering the program would most likely be paid for out of GRF line item 195404, Small Business Development. The current funding for that line item is $1.57 million in each fiscal year for the FY 2010-FY 2011 biennium.

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