



NEIL ABERCROMBIE  
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Statement of  
**RICHARD C. LIM**  
**Interim Director**  
Department of Business, Economic Development, and Tourism  
before the

### HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

Tuesday, March 15, 2011  
8:00 AM  
State Capitol, Conference Room 312

in consideration of  
**SB 757, SD2**  
**RELATING TO SMALL BUSINESS.**

Chair McKelvey, Vice Chair Choy and Members of the House Committee on Economic Revitalization & Business.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 757, SD2, which reestablishes the Hawaii Capital Loan Revolving Fund. In 2003, due to budget concerns, the legislature lowered the expenditure ceiling to preclude making loans under the Hawaii Capital Loan Program. More importantly, the legislature repealed the Hawaii Capital Loan Revolving Fund as of June 30, 2004.

The Hawaii Capital Loan Program (Chapter 210, HRS) was established by the State Legislature in 1963 to provide loans to small businesses for plant construction or expansion; the purchase of buildings, land, equipment, machinery, supplies, materials and working capital. The program was created to fill a void in the financial markets by assisting entrepreneurs who are unable to obtain financing through private or other conventional lenders.

Over the forty years of the Hawaii Capital Loan Program's (HCLP) existence, it assisted 561 borrowers providing financing of over \$96 million. Of the \$96 million, the loan program disbursed \$48.1 million and leveraged \$47.9 million from financial institutions via participation loans. Seventy-six loans were written off during the course the program totaling just under \$7.5 million.

The HCLP serves a public purpose of helping small business to grow with the necessary financing that would otherwise not be available. However, DBEDT does not have the necessary resources to undertake this program. The only loan officer in the Department in charge of handling the Hawaii Capital Loan Program and other loan programs was let go in November 2009 during the reduction in force. Approximately \$100,000 for salary and operational expenses would be required to adequately staff the program should it be reinstated.

More importantly, as established in this bill, the Hawaii Capital Loan Revolving Fund needs to be reenacted. Without the Revolving Loan Fund, there would be no fund from which to make loans and receive loan payments.

Thank you for the opportunity to offer these comments.

**Testimony to the House Committee on Economic Revitalization & Business**  
**Tuesday, March 15, 2011**  
**8:00 a.m.**  
**State Capitol - Conference Room 312**

**RE: SENATE BILL NO. 757 SD2 RELATING TO SMALL BUSINESS**

Chair McKelvey, Vice Chair Choy, and members of the committee:

The Chamber of Commerce of Hawaii ("The Chamber") is in general **support** of SB 757 SD2, which is one of the bills in the Small Business Caucus package. The Chamber appreciates the efforts of the Legislature to help small businesses in Hawaii.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This measure reestablishes the Hawaii capital loan revolving fund; requires that principal and interest payments being made on outstanding loans be deposited into the fund; authorizes the department of business, economic development, and tourism to contract with financial institutions for servicing or administering loans; appropriates funds for the operations of the Hawaii capital loan program.

In Hawaii, small businesses are the engine for Hawaii's economy. They account for a majority of all new jobs and embody the spirit of innovation, entrepreneurship and individual initiative. They reflect all industries and a wide range of employment. Because of the significant role they play in Hawaii's economy, the challenges faced by this segment cannot be overlooked.

In the past couple of years, as a result of the downturn in the economy, small businesses have faced difficulty in obtaining financing and the necessary working capital to maintain or expand their business. SB 757 SD2 is an attempt to address this obstacle and provide another option for businesses to attain financial assistance.

The Chamber asks that the committee pass SB 757 SD2 for further discussion. Thank you for the opportunity to provide testimony.

**Testimony of Thomas J. Smyth, CEcD**

**Before the  
House Committee on Economic Revitalization and Business**

**Tuesday, March 15, 2011, 800 a.m. Conference Room 312**

**On  
SB 757 SD 2 Relating to Small Business**

Chair McKelvey, Vice Chair Choy and Committee Members:

Having managed the Hawaii Capital Loan Program for nearly 18 years, I have some background as to its effectiveness and role in the establishment and growth of local small businesses. **I strongly support SB 757 as amended, which would once again provide funding for this needed program.**

Reestablishment of the revolving fund and providing that current loan repayments go into that fund is essential if the program is to succeed. Allowing DBEDT flexibility in administering the program, including contracting with local commercial lenders is another important element of getting the program up and running.

DBEDT has outlined the history of the direct loan program since its inception over forty years ago. I would note that in its first years there were several general fund appropriations to the revolving fund. As I recall, a total of about \$12 million was appropriated. We were able to return more than \$9 million to the general fund as principal and interest was paid. When the program was terminated in 2003, it was self-sufficient.

Some would say that the program was not successful because there were some defaults and loan failures. In fact, our default rate was about the same as small business loans made by local banks and our borrowers had weaker business plans than those getting bank loans. They had to be turned down by local banks to be eligible for the DBEDT program. Collateral was required for all loans and occasionally we would secure the collateral if the borrower got into trouble. Participation loans with local commercial lenders, some guaranteed by the federal SBA, were also made in about 40% of the loans. A study done in the late 1990's showed that state revenue received about 15% of the amount lent, plus the principal and interest on the loan itself.

Thank you for the opportunity to support this important bill.