

SB 757

EDT

**Testimony to the Senate Committee on Economic Development and Technology
Monday, January 31, 2011 at 1:45 p.m.
Conference Room 016, State Capitol**

RE: SENATE BILL NO. 757 RELATING TO SMALL BUSINESS

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") is in general **support** of SB 757, which is one of the bills in the Small Business Caucus package. The Chamber appreciates the effort 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 appropriates funds for the capital loan program established under chapter 210, HRS.

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 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 for further discussion. Thank you for the opportunity to provide testimony.

Testimony of Thomas J. Smyth, CEcD
Before the
Senate Committee on Economic Development and Technology
Monday, January 31, 2011, 1:45 p.m. Conference Room 016
On
SB 757 Relating to Small Business

Chair Fukunaga, Vice Chair Wakai and Committee Members:

Having managed the Hawaii Capital Loan Program for nearly 18 years, I believe I bring some background as to its effectiveness and role in the establishment and growth of local small businesses. **I strongly support SB 757 which would once again provide funding for this needed program. There are some specific issues that I would call to your attention in order to make this measure effective.**

1. In addition to making an appropriation for the program it is legally necessary to re-establish the Hawaii Capital Loan Revolving Fund formerly Sec. 209-3 so that the funds have a place to be deposited. The fund was terminated as part of the omnibus special and revolving fund “raid” under Act 178/2003 (HB1152 CD2). The language of the entire section could be inserted into SB757 as a new Section 2 of the bill.
2. Having re-established the revolving loan fund, the appropriation could then be directed to the fund as Section 3 in the bill.
3. I would also suggest that the principal and interest payments being made on the loans currently outstanding, if any, be directed into the fund to lower, if not eliminate the need, for further appropriations in the future. At its termination in 2003, the fund was replenishing itself without general fund appropriations.
4. Finally, I suggest that language in Chapter 209, HRS, Disaster Relief and Rehabilitation that allowed DBEDT to use local commercial banks to administer and service the loans be inserted as a new Section 4 in this bill. That language reads:

“Section 209-26 (b): the department may contract with any financial; institution for services including servicing or administering loans pursuant to this section.”

Thank you for the opportunity to provide comments on this important bill.



NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
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Interim Director

Department of Business, Economic Development, and Tourism
before the

COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Monday, January 31, 2011
1:45 PM
State Capitol, Conference Room 016

In consideration of

SB 757

RELATING TO SMALL BUSINESS

Chair Fukunaga, Vice Chair Wakai and Members of the Senate Committee on Economic Development and Technology.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 757, which relates to the Hawaii Capital Loan Program. 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, 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.