

February 19, 1997

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development
FROM: Kenny Pittman, Research Analyst (786-7392)
RE: HB 1833 - Assisting existing economic development revolving loan funds.

BACKGROUND:

In 1985, the Legislature created the Development Loan Fund (DLF) program to provide capital to promote economic development and job creation in economically distressed areas of the state. The DLF program was designed to allow the state to provide financial assistance to businesses, without violating the constitutional lending-of-credit prohibition. Financial assistance is provided to businesses in the form of low-interest loans gap financing- for that portion of a project that a business is unable to obtain from a conventional lender. The DLF program is administered by the Department of Community, Trade, and Economic Development.

Constitutional restrictions on lending of the state's credit are circumvented by exchanging state appropriations from the capital budget with federal Community Development Block Grant (CDBG) funds. The federal CDBG funds are eligible under federal guidelines for economic development activities but are normally used for community infrastructure and housing rehabilitation projects. The state appropriations, once exchanged with CDBG funds, are used for community infrastructure projects and the CDBG funds are freed up to be used for loans to private businesses.

The DLF program sets aside eighty percent of appropriated funds for projects in distressed areas and the remaining twenty percent for projects in non-distressed areas. The DLF committee is may award up to twenty percent of the distressed area funds as grants to local governments to assist in funding of existing economic development revolving loan funds in distressed areas.

SUMMARY:

The restriction that limits twenty percent of the eighty percent of funds available to projects in distressed areas for grants to fund local revolving loan funds is removed. The Development Loan Fund (DLF) committee is authorized to make appropriated funds available to local governments to recapitalize existing economic development revolving loan funds in distressed areas.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.