

# HOUSE BILL REPORT

## ESHB 1512

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### As Amended by the Senate

**Title:** An act relating to the linked deposit program.

**Brief Description:** Increasing the amount the treasurer may use for the linked deposit program.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives Hasegawa, Haler, Pettigrew, Skinner, Santos, Hankins, Kenney, Walsh, McCoy, Kirby, Schual-Berke, Chase, Williams, Roberts, P. Sullivan, Hudgins, Ericks, Darneille, Kagi and Ormsby).

**Brief History:**

**Committee Activity:**

Insurance, Financial Services & Consumer Protection: 1/30/07, 2/1/07 [DP];

Finance: 2/21/07, 3/1/07 [DPS].

**Floor Activity:**

Passed House: 3/8/07, 98-0.

Senate Amended.

Passed Senate: 4/10/07, 41-8.

### Brief Summary of Engrossed Substitute Bill

- Increases the amount of funds available for the Linked Deposit Program from \$100 million to \$200 million.
- Grants the Office of the Minority and Women's Business Enterprises the authority to adopt rules.

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### HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

**Majority Report:** Do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Roach, Ranking Minority Member; Strow, Assistant Ranking Minority Member; Hurst, Rodne, Santos and Simpson.

**Staff:** Jon Hedegard (786-7127).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

**Staff:** Rick Peterson (786-7150).

### **Background:**

The Linked Deposit Program (Program) was created in 1993. The stated purpose of the program is to increase access to business capital for the state's certified minority-owned and women-owned businesses. Under the program, certified businesses can obtain reduced interest rate loans from participating financial institutions.

The State Treasurer is authorized to use up to \$100 million of short-term state treasury surplus funds for the Program. These funds are deposited with public depositories as certificate of deposits (CDs) on the condition that the public depository make "qualifying loans" under the Program. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients. The State Treasurer must reduce the amount of the preference to ensure that the effective interest rate on the certificate of deposit is not less than 2 percent. If the preference given to a qualified public depository is less than 200 basis points, the qualified public depository may reduce the interest rate on the loans by an amount that corresponds to the reduction in the preference below 200 basis points.

Qualifying loans are loans:

- made to certain minority or women's business enterprises;
- for a period not to exceed 10 years;
- for up to a maximum amount of \$1 million for each individual loan;
- at an interest rate that is at least 2 percentage points below the market rate that normally would be charged for a loan of that type; and
- with points or origination fees are limited to 1 percent of the loan principal.

To be eligible the applicant must:

- be a minority and/or a women;
- have at least 51 percent of ownership of the business; and
- control the business.

Three state agencies are involved in the program. The State Treasurer is authorized to fund the program. The Office of Minority and Women's Business Enterprises (OMWBE) certifies the eligibility of the businesses, monitors the performance of loans, and compiles information on borrowers in the program. The Department of Community, Trade, and Economic Development provides technical assistance, loan packaging services and, in consultation with the OMBWE, must develop performance indicators for the Program.

### **Summary of Engrossed Substitute Bill:**

The State Treasurer is authorized to use up to \$200 million of short-term state treasury surplus funds for the Linked Deposit Program.

The substitute bill requires one full-time employee (FTE) be dedicated and funded to support the program in the State Treasurer's Office. The bill is null and void if not funded in the budget.

The Office of the Minority and Women's Business Enterprises is granted the authority to adopt rules to:

- ensure priority to businesses that have never received a loan under the program;
- limit total principal loan amounts received during the lifetime of the business and the lifetime of the business owner; and
- limit the total amount of any single qualified loan under the program.

### **EFFECT OF SENATE AMENDMENT(S):**

The Substitute House Bill increased the amount of funds available for the program from \$100 million to \$200 million of short-term treasury surplus funds. The Senate amendment reduced that amount to \$150 million of short-term treasury surplus funds. The Substitute House Bill included language that made the bill null and void unless a full-time equivalent employee (FTE) was funded and dedicated to the program in the Treasurer's Office. It also allowed the Treasurer to determine if an FTE was hired and to establish the effective date of the Act. These provisions are removed. A standard null and void clause is added. Language regarding the rule-making authority of the OMWBE is modified.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect the first day of the month following the State Treasurer's determination that one additional FTE is dedicated to the deposit investment program. However, the bill is null and void if not funded in the budget.

**Staff Summary of Public Testimony:** (Insurance, Financial Services & Consumer Protection)

(In support) There is a desperate need for capital for women and minority-owned businesses. A recent study indicated that these businesses get only a fraction of a proportional share of transportation contracts. Washington has a higher percentage of women and minority-owned startups, but the revenues and growth trends of these businesses are considerably less than the state average. The demographic changes that the state is experiencing means that we will have increasing numbers of minority-owned businesses. If these businesses do not succeed, the negative impacts will be felt throughout our economy.

There is a great need for businesses in these communities. Revenues have been decreasing for minority-owned business in recent years. The existing wait time is a problem. We hope the

program can be expanded. The program is not free. There are rigorous qualifications that must be met before a loan is made. There have been only two defaults in the program's history. That is a testament to the success of the program. These loans are small but crucial aids to these businesses. Small businesses face many challenges today. This program has provided direct aid to small businesses. There are also many indirect benefits that result from successful minority-owned businesses in our communities. It is a great and successful program. The funds created in last year's bill were disbursed quickly. The program has made loans to all types of businesses, including construction firms, architects, property management firms, health care providers, and management service providers. My firm received loans from this program. I was on the wait list for quite some time. The loans resulted in a savings of less than \$1,000 a month but they meant quite a bit to my firm. We hired 10 full-time employees and we provide good wages and health care. There is a multiplier effect in the community. The end result is also increased state and local taxes. The program creates hope in the small business community. Those small businesses are the backbone of our economy.

The proposed substitute bill is preferable to the House Bill. The Linked Deposit Program should be expanded again. In 2005, the Legislature raised the level of funds from \$50 million to \$100 million. This added capacity was used immediately. The current wait time is still two years. The Treasurer's office needs an additional employee to administer the program. When the program was created, no additional staff was provided. The bill would quadruple the initial program and appropriate staffing is needed.

(Opposed) None.

**Staff Summary of Public Testimony:** (Finance)

(In support) This is an access to capital program that is working. Women and minority owned businesses are lagging behind the growth in the economy. There is a wait list of 94 firms. The wait time is 24 months which is unworkable for the banks and businesses. This is a broad based program with a wide variety of firms. The program is good for the economy. Access to capital is a problem for small firms. The program has one of the lowest default rates of any loan program. The amounts allocated to the program have increased, and it would be an injustice to the program if the costs of administering the program were not fully funded.

(Opposed) None.

**Persons Testifying:** (Insurance, Financial Services & Consumer Protection) Representative Hasegawa, prime sponsor; Mike Murphy, State Treasurer; Ruben Del Valle, Filipino Chamber of Commerce; Lincoln Ferris, Washington Association of Small Business Incubators; Dan Seydel and Skip Rowland, Tabor 100; and Craig Dawson, Retail Lockbox and Tabor 100.

**Persons Testifying:** (Finance) Representative Hasegawa, prime sponsor; Mike Murphy, State Treasurer; Ruben de Valle and Alexander Borreño, Filipino Chamber; Carolyn Crowson, Office of Minority and Women Business Enterprise; Lincoln Ferris, Washington Association of Small Business Incubators; Irene Reyes, Gloves and Safety Supplies; and Dan Seydel and Glenn Gregory, Tabor 100.

**Persons Signed In To Testify But Not Testifying:** (Insurance, Financial Services & Consumer Protection) None.

**Persons Signed In To Testify But Not Testifying:** (Finance) None.