

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4511-01  
Bill No.: HB 1503  
Subject: Veterans, Economic Development, Department of Economic Development  
Type: Original  
Date: January 22, 2018

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Bill Summary: This proposal establishes a fund for providing state-guaranteed small business loans to veterans.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	(\$69,344)	(Could Exceed \$73,651)	(Could Exceed \$74,350)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$69,344)</b>	<b>(Could Exceed \$73,651)</b>	<b>(Could Exceed \$74,350)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Veteran-Owned Small Business Loan	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0 to Unknown</b>	<b>\$0 to Unknown</b>	<b>\$0 to Unknown</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would authorize the Department of Economic Development to issue state guarantees to lenders for loans to veteran-owned small businesses. Lenders would be responsible for applying for the state guarantees and paying an administrative fee, which shall be determined by the department. There is a \$500,000 per qualified veteran cap on each guarantee. The applicant would be responsible for paying fees or charges involved in recording mortgages, releases and financing states, and any other similar fees or charges as the department may require. In addition, the department may renew a state guarantee to a lender if a fee equal to twenty-five basis points on the loan is paid to the department on an annual basis by the lender.

According to the U.S. Department of Commerce, there were 49,217 veteran-owned businesses in Missouri in 2012 (latest census data available). Budget and Planning is not able to estimate the number of veterans that might participate in this program, or the amount of the fees that would be charged, or the amount necessary to appropriate to the newly created Loan Fund. Any additional fees collected under this proposal would increase Total State Revenue by an unknown amount and could impact the calculations under Article X, Section 18(e). These changes may impact other economic activity, but B&P does not have data to estimate the induced revenues.

Officials at the **Department of Economic Development (DED)** assume this creates §620.3250. It authorizes the DED to issue state guarantees to lenders for loans to veteran-owned small businesses. Upon approval of the guarantee, the applicant will be assigned a "mentor" for 1 year following approval and the applicant must meet with the mentor once every 90 days. The cap per veteran is \$500,000. This proposal sunsets 3 years after the effective date.

There is no cap on the program. The fiscal impact for this legislation is a guess because there is no statutory cap on the program and no historical data to look at to guess an impact because it is a new program.

The legislation does not say who employs the "mentor" so it is unclear if it is a bank employee or a state employee. For the purposes of this fiscal note, DED assumes that DED will employ the "mentors."

Assuming there are 100 loans per year, and each loan is between \$100,000 and \$500,000, the cost of the program annually would be between \$10,000,000-\$50,000,000. DED will need to hire 1 Band II Manager (\$63,618), 1 Economic Development Incentive Specialist III (\$53,136), and 10 Marketing/Business Specialists III (\$53,136) to implement the program.

ASSUMPTION (continued)

The 12 FTE will require that DED pay for more space in the Truman Building, or, if that is not available, rent additional office space in Jefferson City. The cost for space for 12 FTE in the Truman Building is \$1,518/person/year for a cost of \$18,216/year. If DED is required to rent space in Jefferson City the cost is \$4,025/person/year for a total annual cost of \$48,300.

**Oversight** notes this proposal authorizes the DED to issue state guarantees for loans to veteran-owned businesses. Oversight notes that DED is not providing loans to the veteran but just a guarantee should the veteran default on their loan payment. Oversight assumes that General Revenue would pay for any of these defaulted loans. Oversight will show a transfer out of General Revenue to the Veteran-Owned Small Business Loan Fund of an Unknown amount for the defaulted loans starting in FY 2020.

**Oversight** notes that the bill allows DED to collect from the lenders an administrative fee for participation in the loan guarantee program. Per this proposal, all fees are to be deposited into the Veteran-Owned Small Business Loan Fund. Oversight will show an Unknown impact from the fees starting in FY 2019.

**Oversight** notes that §620.3250.4, requires any applicant who receives a loan guaranteed by the state to be assigned a mentor and to meet with the mentor once every ninety days for one year. Oversight notes this proposal does not require DED to provide the mentors and to pay for the mentors. Oversight assumes that DED will be able to provide a list of mentors (not additional (new) state employees) in the applicants' area of the state they could work with. Oversight assumes that DED could administer this program with the one Economic Development Incentive Specialist III.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III (from \$53,136 to \$44,352) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials at the **Missouri Veterans Commission** assume there is no fiscal impact from this proposal.

Officials at the **Office of the State Treasurer** assume there is no fiscal impact from this proposal. They note this creates the Veteran-Owned Small Business Loan Fund that is not subject to the biennial transfer and interest is credited back to the fund.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>GENERAL REVENUE</b>			
<u>Transfer Out</u> - to Veteran-Owned Small Business Loan Fund to repay any defaulted loans	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost</u> - DED			
Personal Service	(\$36,960)	(\$44,796)	(\$45,243)
Fringe Benefits	(\$19,967)	(\$24,092)	(\$24,225)
Equipment & Expenses	<u>(\$12,417)</u>	<u>(\$4,763)</u>	<u>(\$4,882)</u>
<u>Total Costs</u> - DED	<u>(\$69,344)</u>	<u>(\$73,651)</u>	<u>(\$74,350)</u>
FTE Change - DED	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$69,344)</u></b>	<b>(Could Exceed <u>\$73,651</u>)</b>	<b>(Could Exceed <u>\$74,350</u>)</b>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
<b>VETERAN-OWNED SMALL BUSINESS LOAN FUND</b>			
<u>Transfer In</u> - from General Revenue - money to cover defaulted loans	\$0	Unknown	Unknown
<u>Revenue</u> - lender's payment of an administrative fee	Unknown	Unknown	Unknown
<u>Cost</u> - payment to the lenders for any defaulted loans	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON VETERAN-OWNED SMALL BUSINESS LOAN FUND</b>	<b><u>\$0 to Unknown</u></b>	<b><u>\$0 to Unknown</u></b>	<b><u>\$0 to Unknown</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal; however, loan guarantees might make it more likely some small businesses qualify for loans.

FISCAL DESCRIPTION

This bill allows the Department of Economic Development to issue state guarantees to lenders for loans to veteran-owned small businesses. The lender and applicant have certain responsibilities relating to the application and fees required by the department. In order to be eligible for the program, an applicant must be an honorably discharged resident intending to locate his or her business in the state, complete an approved boots-to-business program, and have a business plan approved by the department. Upon approval for the state-guaranteed loan, an applicant will be assigned a mentor for one year following the approval and must meet with the mentor at least once every 90 days.

The lender must agree to an interest rate on the loan that the department determines to be below the market rate generally available. If both the lender and the applicant agree, the rate on the loan may be converted to a fixed interest rate at any time during the term of the loan. All loans guaranteed by the state under this section must be subject to certain requirements, including that loans are not to exceed \$500,000 per qualified veteran-owned small business or a term or 15 years; loans are subject to an annual review and renewal by the lender and the department; and loans may not be revoked by the department without a 90 day notice to all parties.

The bill requires the department to provided or renew a state guarantee to a lender under specific circumstances. If, for any reason, the General Assembly fails to make an appropriation sufficient to meet the obligations under a state guarantee, the provisions of this bill constitute an irrevocable and continuing appropriation of an amount necessary to secure guarantees as defaults occur and the irrevocable and continuing authority for the State Treasurer to make necessary transfers to the fund out of the General Revenue Fund.

In the event of a default by the borrower on a loan subject to a state guarantee, the lender is entitled to the state guarantee after 90 days of delinquency. It is the responsibility of the lender to proceed with collecting and disposing of collateral on the state guarantee within 14 months after the state guarantee is declared delinquent. If the lender does not dispose of the collateral within

FISCAL DESCRIPTION (continued)

that period, the lender is liable to repay to the state interest on the state guarantee at a rate equal to the same rate that the lender charges on the state guarantee.

The bill creates a fund to be reimbursed for any amounts paid upon liquidation of the collateral. The department may borrow sums from the fund to provide for repayment as soon as may be practicable upon receipt of payments of principal and interest by a borrower on loans subject to a state guarantee under this section.

The provisions of this bill are subject to a sunset clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Joint Committee on Administrative Rules  
Missouri Veterans Commission  
Office of Administration  
Division of Budget and Planning  
Office of the Secretary of State  
Office of the State Treasurer

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Acting Director  
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