

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

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Prepared By: The Professional Staff of the Transportation and Economic Development Appropriations  
Committee

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BILL: CS/CS/SB 2714

INTRODUCER: Transportation and Economic Development Appropriations Committee, Commerce  
Committee and Senator Fasano

SUBJECT: Economic Development/Building Florida's Future Revolving Loan Guarantee Program

DATE: April 10, 2008

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Pugh</u>	<u>Cooper</u>	<u>CM</u>	<u>Fav/CS</u>
2.	<u>Noble</u>	<u>Noble</u>	<u>TA</u>	<u>Fav/CS</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

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**I. Summary:**

CS/CS/SB 2714 creates the "Building Florida's Future Revolving Loan Guarantee Program" within the Office of Tourism, Trade and Economic Development (OTTED).

The program's purpose is to provide loan guarantees or other credit enhancements to local governments or private entities for the purpose of building or modernizing facilities or infrastructure needed to attract or expand targeted industries, generally defined in s. 288.106(1)(o), F.S., as stable, high-wage businesses with tremendous potential for growth.

OTTED and Enterprise Florida, Inc. (EFI), the state's business recruitment arm, would evaluate applications for the loan guarantees on such factors as credit-worthiness and the extent to which the assistance will foster an innovative public-private partnership or attract private investment to the project. OTTED must transmit to the Legislature and the Governor an annual report, beginning January 5, 2009, about the program's activity.

CS/CS/SB 2714 would be funded through a \$20 million appropriation from the General Revenue Fund. The CS has a companion, CS/CS/SB 2712, which creates the Building Florida's Future Revolving Trust Fund to hold the funds used as loan guarantees.

CS/CS/SB 2714 creates s. 288.097, F.S.

## II. Present Situation:

### Revolving funds as an economic development tool

A “revolving fund” is generally defined as a fund established for a certain purpose, such as making loans, with the stipulation that repayments to the fund may be used anew for the same purpose.<sup>1</sup> It typically takes the form of a revolving low-or-no-interest loan fund, but also can include funds that act as loan guarantees, collateral, or other types of credit enhancement, that increase an applicant’s chances at obtaining traditional financing.

Revolving loan fund programs are as versatile as they are widespread: their purposes can range from protecting conservation lands in Australia,<sup>2</sup> to providing micro-loans for poor women starting their own businesses in India,<sup>3</sup> to capitalizing Colorado painters, potters, weavers, and other artists.<sup>4</sup>

The U.S. government has several different revolving loan and loan guarantee programs administered by a number of agencies.<sup>5</sup> There are federal revolving loan programs that help finance water and wastewater system improvements, environmental cleanup, economic development, agricultural operations, housing, and public education. Many of these programs are in partnership with states or local governments.

Loan guarantees are a key incentive of the U.S. Small Business Administration (SBA), which has offered them since 1953. The major benefit of an SBA loan guarantee is to make conventional financing available to a small business, a small community, or an individual that might not otherwise qualify for the loan.<sup>6</sup> An SBA guarantee is sought when a conventional lender feels that the prospective borrower has insufficient collateral to support the loan request, or doesn’t have an extensive enough credit track record. The loan guarantee substitutes for some or all of the traditional collateral, provides the lender with satisfactory security to support the loan. If the borrower fails to repay the loan, the lender can recover the guaranteed portion of the loan from the SBA.

Florida’s Department of Environmental Protection and the Department of Transportation (DOT) are among the state agencies that have revolving loan programs using state funds, that piggyback onto federal programs. For example, DOT has two state infrastructure bank (SIB) programs – one using federal funds and the other state funds – that provide financing assistance for public

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<sup>1</sup> See <http://www.answers.com/topic/revolving-funds?cat=biz-fin>.

<sup>2</sup> “A Revolving Fund for Biodiversity Conservation in Australia.” Trust for Nature (based in Victoria, Australia). Published in 1997. Retrieval at [www.cbd.int/doc/case-studies/inc/cs-inc-oecd-16-en.doc](http://www.cbd.int/doc/case-studies/inc/cs-inc-oecd-16-en.doc). Last visited March 20, 2008.

<sup>3</sup> “The Investment Climate for Female Informal Businesses: A Case Study from Urban and Rural India.” Background Paper for the 2005 World Development Report. Drafted by M. Chen, R. Jhabvala & R. Nanavaty. Published September 4, 2003. Retrieval at: [www.wiego.org/papers/2005/unifem/12\\_chen\\_jhabvala\\_nanavaty\\_investment\\_climate\\_female\\_informal\\_firms.pdf](http://www.wiego.org/papers/2005/unifem/12_chen_jhabvala_nanavaty_investment_climate_female_informal_firms.pdf). Last visited Feb. 9, 2008.

<sup>4</sup> Denver, Colo. “Creative Enterprises Revolving Loan Fund (CERLF).” Retrieval at: <http://www.denvergov.org/homepage/creativeenterprisesrevolvingloanfund/tabid/425153/www.microbusiness.org/creative/default.aspx>. Last visited Feb. 9, 2008.

<sup>5</sup> General website for Office of Management & Budget is <http://www.whitehouse.gov/omb/>.

<sup>6</sup> See [http://www.toolkit.com/small\\_business\\_guide/sbg.aspx?nid=P10\\_4210](http://www.toolkit.com/small_business_guide/sbg.aspx?nid=P10_4210) on the Small Business Administration website. Last visited April 8, 2008.

transportation projects. The state SIB was created pursuant to s. 339.55, F.S., and provides loans and credit enhancements to local governments and private entities for specified categories of road projects.

#### Florida's "target industries"

Section 288.106, F.S., creates the Qualified Target Industry incentive program, which is designed to help recruit high-wage, high-growth businesses to Florida. The section defines a "target industry business" as either a corporate headquarters or a business:<sup>7</sup>

- With an expectation for future growth in both employment and output, according to the most recent available data. Special consideration should be given to Florida's growing access to international markets or to replacing imports.
- Expected to be stable, and not be subject to periodic layoffs, whether due to seasonality or sensitivity to volatile economic variables such as weather. The industry should also be relatively resistant to recession, so that the demand for products of this industry is not necessarily subject to decline during an economic downturn.
- Pay relatively high wages compared to statewide or area averages.
- Be independent of a reliance on Florida markets and resources.
- Create a diverse economic base for the state or the region.
- Provide strong, positive impacts on or benefits to the state and regional economies.

Enterprise Florida, Inc., the state's economic recruitment entity, also has developed a list of seven categories of target industries.<sup>8</sup> The categories are: manufacturing facilities; finance and insurance services; information industries; professional, scientific and technical services; management services; and administrative and support services. Within those large categories are dozens of individual types of businesses that would qualify for incentives.

### **III. Effect of Proposed Changes:**

Section 1 creates s. 288.097, F.S., the Building Florida's Future Revolving Loan Guarantee Program. The program would provide loan guarantees to local governments and private entities that would support their plans to:

- Buy land, buildings, or fixed equipment;
- Prepare a site for construction or reconstruction; or
- Install or provide access to telecommunications, energy sources, or water supply utilities.

The intent of CS/CS/SB 2714 is to help attract or expand targeted industries, as defined in s. 288.106(1)(o), F.S., as part of an economic development project.

OTTED and EFI must consider, but not be limited to, the following criteria when evaluating projects for the credit assistance:

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<sup>7</sup> Section 288.106(1)(o), F.S.

<sup>8</sup> 2007 Incentives Report. Prepared by Enterprise Florida Inc. Information on page 51 of the report. Report available at: [http://www.eflorida.com/uploadedFiles/Florida\\_Knowledge\\_Center/Resource\\_Center/Resource\\_Links/2007%20Incentives%20Report.pdf](http://www.eflorida.com/uploadedFiles/Florida_Knowledge_Center/Resource_Center/Resource_Links/2007%20Incentives%20Report.pdf). Last visited April 10, 2008.

- A demonstration that the project would create or enhance economic benefits.
- The likelihood that the loan guarantee or credit enhancement would enable the project to proceed.
- The extent to which assistance would foster innovative public-private partnerships and attract private debt or equity investment.
- The credit worthiness of the entity or entities applying for the loan assistance.
- Whether the project is consistent, to the maximum extent feasible, with local government comprehensive plans.

All monies in the program's trust fund, including any interest earnings, will be available to carry out the program's purposes. The trust fund is created in CS/CS/SB 2712, also before the 2008 Legislature. Any funds that are not needed on an immediate basis for loan guarantees or other types of credit enhancements may be invested by the State Board of Administration, pursuant to s. 215.49, F.S.

Finally, this section directs OTTED to adopt rules for the development of application forms, deadlines for submitting applications, requirements of the selection process, and audit requirements.

Section 2 authorizes an FY 2008-2009 appropriation of \$20 million from the state's General Revenue Fund for the program. This section also provides that notwithstanding s. 216.301, F.S., the unexpended balance of the appropriations does not revert.

Section 3 provides an effective date of July 1, 2008, contingent upon the passage of SB 2712 or similar legislation during the 2008 regular session or any special sessions of the same year.

#### **IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

#### **V. Fiscal Impact Statement:**

A. Tax/Fee Issues:

None.

**B. Private Sector Impact:**

The availability of loan guarantees and other types of credit enhancements, as created in CS/CS/SB 2714, could benefit entities who either want to locate or expand in Florida, or otherwise partner with local governments on economic development projects.

**C. Government Sector Impact:**

The availability of \$20 million in loan guarantees and other types of credit enhancements, as created in CS/SB 2714, could benefit local governments who want to engage in economic development projects, either alone or in partnership with private companies.

**VI. Technical Deficiencies:**

Due to a scrivener's error, the context of line 43 is somewhat unclear. The sponsor's intent is to limit the eligibility of guarantee recipients for utility improvements to those involving water supply. But the inclusion of the word "other" disrupts the clarity of the sponsor's intent. A future technical amendment should be filed to delete the word "other."

**VII. Related Issues:**

None.

**VIII. Additional Information:****A. Committee Substitute – Statement of Substantial Changes:**  
(Summarizing differences between the Committee Substitute and the prior version of the bill.)**CS by Transportation & Economic Development Appropriations Committee on April 10, 2008:**

- i. Added an appropriation of \$20 million.
- ii. Removed earlier provision for the program's trust fund to maintain a minimum, but unnamed, amount.
- iii. Limited the type of eligible utility improvements to those involving water supply.

**CS by Commerce Committee on March 25, 2008:**

- i. Removed the verbiage that gave the Office of Tourism, Trade, and Economic Development substantial leeway to adopt rules addressing more loan guarantee program implementation issues than specified in the bill.
- ii. Amended the contingent effective date by adding the number of the companion bill that also must pass, SB 2712.

**B. Amendments:**

None.