

MINUTES

MONTANA SENATE 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON BUSINESS & INDUSTRY

Call to Order: By Chairman J.D. Lynch, on April 5, 1991, at
10:00 a.m.

ROLL CALL

Members Present:

J.D. Lynch, Chairman (D)
John Jr. Kennedy, Vice Chairman (D)
Betty Bruski (D)
Eve Franklin (D)
Delwyn Gage (R)
Thomas Hager (R)
Jerry Noble (R)
Gene Thayer (R)
Bob Williams (D)

Members Excused: None

Staff Present: Bart Campbell (Legislative Council).

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Announcements/Discussion: None

HEARING ON HOUSE BILL 477

Presentation and Opening Statement by Sponsor:

Representative Mike Kadas, sponsor of the bill, stated that this is a microbusiness economic bill. It appropriates money from the coal tax trust fund, and therefore it needs three fourths vote. That money goes to the department of commerce, the department of commerce then loans that money to local microbusiness economic development corporations. The local economic development corporations have to pay the department of commerce at least three percent for those loans. The department of commerce uses that interest to operate their end of this whole operation. There is one and a half FTEs that they support with it. The local economic development corporations loan the money to microbusinesses. The microbusinesses have to be of ten or fewer employees, and have gross revenues of less than half of a million. The loans can only be up to twenty thousand dollars, and at market rates. The banks don't provide loans in those

areas because they are so small that they can't make a profit on them. Market rate means anywhere from twelve to fifteen percent interest. He proposed an amendment to the bill. Rather than taking all of the money straight out of the trust, and allocating it the department of commerce, give the department of commerce the authority to take the money out of the trust, but only taking it out as the loans are made to the local economic development corporations. The department of commerce are agreeable to the amendments, and the amendments provide more security to the trust. This addresses one part of our economy that we have had a difficult time directing their problems. One of the main problems of businesses of this size is being able to get the capital to operate their business. This program does that.

Proponents' Testimony:

Chuck Brook, representing the department of commerce, stated that this program has had a proven track record in Montana, and they support this bill.

Senator Dorothy Eck stated that this is a program that addresses the need of a sector of our economy that provides us with real growth and stability. It has a good record of doing well.

Charles Brooks, representing the Montana retail association and its affiliates, stated in the 1980's he spent some time with the Montana department of commerce traveling the state putting on seminars relative to the made in Montana program. They found a great need for this type of financing for inventors and small entrepreneurs trying to get a product ready for manufacturing and marketing.

Jim Tutwiler, representing the Montana chamber of commerce, stated in September through November of last year the chamber and himself traveled throughout Montana. They visited about two dozen Montana communities, and one of the things that they talked about to the business community was this particular bill. A lot of Montanans in the business world understand this bill, and they support this kind of legislation.

Bob Heffner, chief administrator for economic development of the department of commerce, stated that he was deeply involved in drafting and redrafting this bill. He submitted some basic facts about the bill (See Exhibit 1).

Kay Foster, representing the Billings area chamber of commerce, submitted written testimony in support of HB 477 on behalf of Alvin Swanson, board of directors for the Billings chamber of commerce (See Exhibit 2 and Exhibit 2A).

Lynn Rosen, director of capital opportunities, stated that she supports this bill.

Judith Filbert, representing laser star, submitted written testimony in support of the bill (See Exhibit 3).

Dave Lewis, representing the board of investments, stated that HB 477 fills a niche in Montana's financing. There are five bills that are going through the legislature this time that increase the development capital. If you total all of the bills up you would come up with one hundred and twenty five million

dollars. We could have by accident put together five bills with the department of commerce working with the legislature, that could really make a difference in the state. HB 477 goes to the very small start up business.

Mike Murphy, representing the Montana department of agriculture, stated that the microbusiness development act would compliment the efforts and activity similar agriculture related economic development efforts of the department of agriculture. This act will strengthen and diversify Montana economy through the development of small businesses in the state.

Carl Russell, executive director of science and technology, stated that this bill is not a duplicate of what they are into. It does fill one of those other gaps, especially in some of the retail end of things. This is a good bill.

Bill Chumraw, representing the Missoula community business incubator, stated that they presently offer a successful loan program. They have loaned out over six hundred thousand dollars. Their program is a guaranteed program, they use the money as leverage. The program has no losses to date.

Kelly Rosenleaf, representing the women's economic development group (WEDGo) in Missoula, Montana, submitted written testimony in support of HB 477 (See Exhibit 4, Exhibit 4A, and Exhibit 4B).

Riley Johnson, representing the national federation of independent businesses, stated that this bill goes right at the heart of his membership. The hardest thing that they find is getting small loans.

Lynne Himes, a current graduate of the university of Montana, stated that knowing how our economy is and wanting the younger people to stay within the state, she and her partner jointly opened up L.A. design, a custom framing shop. They went through a business incubator in Missoula, Montana, and they were able to give them funding to start their business. They have been in business for a year and a half, and have been quite successful.

Darrel Cross, representing Montana lite strike, stated that he obtained a loan through the Missoula community for an ice fishing device that he had patented.

Opponents' Testimony:

None

Questions From Committee Members:

Senator Noble asked how does somebody apply for a micro loan.

Lynn Rosen stated that they have very complete application packages. The applicant picks up an application at a local bank, or the unemployment office, they let us know that they want help. The entrepreneur submits the application to the program, and a loan review board reviews it. They either authorize or reject the loan. They have a monitor that goes out every month and does

a oversight review.

Senator Gage asked what the fiscal impact of this would be if we take the money out of the coal tax fund.

Representative Kadas stated that in the first year, we have an appropriations bill for sixty or seventy thousand dollars for the department of commerce to get the thing up and going. The second year, the loss of interest is about one hundred and eighty thousand. The loss will be about two hundred and eighty thousand per year.

Senator Gage asked what if you don't get the coal tax money.

Representative Kadas stated if you don't get the coal tax money, the whole bill probably ought to fail.

Closing by Sponsor:

Representative Kadas closed by saying that Senator Dorothy Eck will carry the bill to the floor.

EXECUTIVE ACTION ON HOUSE BILL 477

Motion:

Senator Thayer moved to amend HB 477 with the amendments proposed by Representative Kadas.

Senator Thayer moved HB 477 be concurred in as amended.

Discussion:

None

Amendments, Discussion, and Votes:

The motion by Senator Thayer to amend HB 477 with the amendments proposed by Representative Kadas passed unanimously.

Recommendation and Vote:

The motion by Senator Thayer that HB 477 be concurred in as amended passed unanimously.

ADJOURNMENT

Adjournment At: 10:30 a.m.

SENATE BUSINESS & INDUSTRY COMMITTEE

April 5, 1991

Page 5, of 5



J.D. LYNCH, Chairman



DARA ANDERSON, Secretary

JDL/dia

ROLL CALL

BUSINESS AND INDUSTRY COMMITTEE

DATE 4/5/91

52ND LEGISLATIVE SESSION

NAME	PRESENT	ABSENT	EXCUSED
SENATOR BRUSKI	X		
SENATOR FRANKLIN	X		
SENATOR GAGE	X		
SENATOR HAGER	X		
SENATOR NOBLE	X		
SENATOR THAYER	X		
SENATOR WILLIAMS	X		
SENATOR KENNEDY	X		
SENATOR LYNCH	X		

Each day attach to minutes.

4/5/91

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
JUDY CARLSON	HRDC ASBN	477	X	
Bob Heffner	Dept of Commerce		X	
Kay Foster	Billings Chamber	477	X	
Carl Russell	MSTA		X	
Chuck Profer	Comm Dist	477	X	
Bill Kinnaman	MISSOURIA C. BUS INC	477	✓	
Kelly Roserday	MT WEDGO	477	✓	
JAMES BLIMES	MT WEDGO	477	✓	
Janet Case	MSLA, MT Life Strike	477	✓	
JAMES TUTWILER	MT CHAMBER	477	✓	
Mike Murphy	MT. Dept. of Ag.	477	✓	
Riley Johnson	NFIB	477	✓	
Judith Filbert	Laser Star	477	✓	

(Please leave prepared statement with Secretary)

rev: March 19, 1991

MICROBUSINESS AND JOBS

1. Most Montana companies are "micro".

The Small Business Administration defines "small" manufacturers as those with less than 500 employees. But, according to Dun & Bradstreet, over 82% of all Montana companies employ fewer than 10 people--a category that is "smaller than small", or "micro." Likewise, over 79% of all Montana companies have gross revenues of under \$500,000 per year, again, "smaller than small."

Microbusiness is the real Montana economy.

2. Most all job growth comes from companies that are locally-owned, young, and "micro." From "Analysis of Economic Change in Montana," by David Birch, of Cognetics, Inc. :

NET JOB GENERATION, 1981 - 1985

	<u>Net Jobs Created/(Lost)</u>
<u>Whole Montana Economy</u>	2,300
<u>By employment Size</u>	
0 - 19	6,191
all others	(3,905)
<u>By Ownership Type</u>	
local independent	3,688
all others	(1,402)
<u>By Age</u>	
0 - 4 years in business	20,240
all others	(18,043)

These figures argue that very small, young, locally-owned companies deserve priority attention in economic development.

3. "Micro" companies need help in FINANCE and MANAGEMENT.

New, micro companies produce most of our jobs, but they are also extremely volatile. Montana Department of Labor figures show that 52% of new companies fail in the first four years. Dun and Bradstreet's analysis of business failures points to two main causes: inadequate finance and management.

-Small companies need small loans, but commercial loans under \$20,000 to small, young companies are extremely difficult to get. Investigation and servicing costs too much for conventional commercial or public lenders to serve this market.

-"Micro" company managers often lack formal business training, can't hire specialized staff, and are unprepared to present a professional business plan and loan proposal.

4. The Microbusiness Development Act, HB 477, combines small, appropriate amounts of finance with (1) pre-loan training and business planning, and (2) post-loan oversight to solve both of the micro company's main problems: finance and management.

Microbusiness development corporations are defined to be nonprofit corporations whose function is to provide management training, technical assistance and access to finance to microbusinesses, and to monitor the performance of microbusiness loan recipients. Detailed qualifications, rules and guidelines for these corporations will be developed by the Department of Commerce, in conjunction with an advisory board of thirteen members representing the financial community, local development groups and microbusiness owners.

In general, MBDC's will be required to demonstrate their ability and plan to: 1) provide training and financial oversight; 2) administer a revolving loan fund; 3) investigate and qualify loan proposals; and 4) secure sufficient sources of operating income. MBDC's will also be required to demonstrate broad-based community support, and a sufficient market or client base to fully utilize the proposed revolving loan funds. In selecting among competing proposals, attention will also be given to geographic representation of and service to all areas of the state, including both rural and urban communities.

Development loan funds may be used by the MBDC's to make direct loans to microbusinesses, not to exceed \$20,000 to any one business; or funds may be deposited to guarantee loans made by financial institutions to microbusinesses, with the same dollar limitation per loan and per business. Development loan funds may not be used for any other purpose, including operating expenses of the MBDC. However, interest earned on deposits or loans from these funds may be used for operating expenses.

Matching contributions to the revolving loan funds will be required, on the ratio of one dollar from other sources to each three dollars of program funds. Upon a finding of nonperformance or noncompliance in administration of its revolving loan fund, a corporation may be declared in default and required to remit the full amount of the development loan. To this end, development loans will be secured against the corporation's receivables (its entire loan portfolio).

Support for this initiative has been strong among all those with whom the idea has been discussed, and who have aided in developing the draft legislation: bankers, business people, local development corporations, job training and educational organizations, and technical staff at the Business Assistance Division and Board of Investments.

Sufficient organizational experience, and financial and training expertise, exist in communities throughout the state to project that ten to twelve regional microbusiness development corporations can be qualified and capitalized within the first two years of program operation. Distributed across the state, the network will serve the state's entire microbusiness population, creating about 860 new jobs in the first biennium.

QUESTIONS AND ANSWERS
on the
MICROBUSINESS DEVELOPMENT ACT

1. What will the program cost, and how will it benefit the state?

a) Costs:

A small general fund appropriation will be needed to start the program, until enough development loans have been made for interest income to cover administrative costs. We estimate a need for \$64,600 in the 1st year, and zero thereafter.

The state will also lose interest earnings of 8.78% on the \$3.25 million appropriated from the Instate Investment Fund (IIF). Once the full appropriation is drawn, that amounts to \$285,350 per year.

b) Benefits:

For microbusiness, investment per job created is extremely low. At least one new job will result from every \$5,000 of development loan funds invested (micro-loans will leverage additional private investment, in many cases). In the first round of investment, a total of \$4.3 million in state funds plus local matching funds will create 866 new jobs. At even a below-average wage of \$15,000 each, that means:

- \$12.9 million in new personal income, producing
- a \$318,255 annual increase in state income tax revenues.

In addition, about 260 of these new jobs will be filled by people leaving the unemployment or welfare rolls. At an average of \$2,791 each, the state will realize a \$726,000 cost savings in benefits and claims.

More revenue gains will come from increases in excise and property taxes. Even without taking these into account, gains exceed costs by \$3 to \$1; and the loan pool will be invested not just once, but perpetually reinvested in small, locally owned Montana businesses, continuing to create new jobs and related benefits.

2. Is this trust-busting?

The principle author of the Instate Investment Act agrees that the use of funds contemplated here is entirely in accord with the original intent of the Act. What is being done is to free a small part of the Fund from the constraints of trust fund fiduciary regulations--constraints that prevent the money from being used to make small loans to truly small businesses. And the appropriation from the IIF is not to be spent: it is to be invested, over and over again, in small companies at the community level. Loan capital is sequestered from operating funds; is secured; and is recoverable.

[continued]

INTEREST INCOME COSTS -- MICROBUSINESS DEVELOPMENT ACT

The microbusiness development act appropriates \$3.25 million from the Instate Investment Fund (IIF). Those funds now earn about 8.78% annual interest, or \$285,700 per year. For next biennium, the earnings are allocated 85% to general fund and 15% to state equalization aid: \$242,845 to general fund and \$42,855 to equalization, per year.

On July 1, 1991, the \$3.25 million will be deposited to a microbusiness development loan account, from which low interest development loans can be made to capitalize community revolving loan funds. Balances held in that account, prior to being lent out in development loans, will be invested in BOI's Short Term Investment Program (STIP). Interest earnings will be about the same as if the funds were held in the IIF, and are allocated to the general fund. Until development loans are made, there is no effect on the general fund or total state revenues.

Once development loans are made, interest earned on them is allocated to the microbusiness administrative account, and will pay the full costs of operating the program. Principal repayments (which will usually only occur in cases of default, since development loans are interest-only loans) go back to the development loan account, and will be temporarily invested in the STIP, as described above. Loan awards, and losses of interest income to the general fund occur on the following schedule:

1. Loan Awards.

FY 1992

December, 1991	3 loans @ \$250,000	\$750,000
May, 1992	2 loans @ \$250,000	\$500,000

FY 1993

October, 1992	4 loans @ \$250,000	\$1,000,000
May, 1993	4 loans @ \$250,000	\$1,000,000

2. Interest Income Losses to General Fund.

FY 1992

6 months,	\$750,000 @ 7.71%	\$ 28,913
1 month,	\$500,000 @ 7.71%	\$ 3,213
TOTAL, FY 1992:		\$ 32,126

FY 1993

3 months,	\$1,250,000 @ 8.13%	\$ 25,406
7 months,	\$2,250,000 @ 8.13%	\$ 106,706
2 months,	\$3,250,000 @ 8.13%	\$ 44,038
TOTAL, FY 1993:		\$ 176,150

These losses are expected to be more than offset by gains in income tax revenue and cuts in welfare/unemployment, from the 866 new jobs created in each round of investment. These gains and savings are calculated on the following page.



SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 2
DATE 4/5/91
BILL NO. HB477

April 5, 1991

Members of the Senate Business and Industry
Committee
Helena, Montana

Re: Testimony in support of HB477, Microbusiness Development Act

The Billings Area Chamber of Commerce urges your support of the loan program outlined in the Microbusiness Development Act. This program will fill a gap in financing for new and growing small businesses throughout the state. A successful lending program of this type will return positive benefits to the state in increased employment and economic activity.

We appreciate your positive consideration of HB477.

Sincerely,

A handwritten signature in cursive script, appearing to read "Alvin L. Swanson, Jr.".

Alvin L. Swanson, Jr., Chair
Board of Directors
Billings Area Chamber of Commerce

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 2A

DATE 4/5/91

BILL NO. H3477

Capital Opportunities

"a micro-business capital fund"

***In the American Tradition
of Entrepreneurship***





LASER STAR

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 3

DATE 4/5/91

BILL NO. HB 477

P.O. Box 1157 • Livingston, MT 59047 • 222-7577 • 587-3932

H.B. 477, The Microbusiness Development Act--Testimony

Before the Montana ^{Senate} ~~House~~ Committee on Business and ^{Industry} ~~Economic~~ Development

By Judith A. Filbert, Laser Star

Date: ^{April 5} ~~February~~ 8, 1991

Good morning ladies and gentlemen.

It is indeed a pleasure and honor to come before you today to testify on House bill No. 477, The Microbusiness Development Act. My remarks involve looking at Laser Star - a micro business which came into existence as a result of just such a program as you are considering. Laser Star is a cartridge recharge service for laser printers and various copy machines in the Bozeman/Livingston area. I am the owner and sole proprietor of Laser Star. My customers are small business, universities and large corporations operating in Montana and North Dakota. I am pursuing with some encouragement regional service with the assistance of the Procurement Technical Assistance Personnel at the Department of Commerce.

At the time I began searching for financing for my business, little did I know the obstacles that would be encountered. I was then on unemployment, having been laid off. Previous to that I lost a job when Orionics, a high technology company in Bozeman, closed its doors. After two such experiences within a brief four year span and surveying the bleak career opportunities in my geographic area, I decided to begin my own company. It was our family tradition to own and operate your own business, my father operated a successful tree nursery during my childhood and youth. I grew up in the entrepreneurial spirit.

Once having made this decision, I formulated a business plan and approached several banks and the Small Business Administration. I was turned down by four banks and discovered that a loan in the \$15,000 to \$20,000 range was very difficult to obtain. My personal collateral was not sufficient to carry a loan of this size, and the business is not one which has a large inventory or office which could be used as collateral. The nature of this business is such that until it reaches a substantial gross income, it will not need to carry a large inventory, and can be operated from my home. Just what I wanted to have a safe, conservative start-up, but not sufficient to meet conventional banking requirements.

Capital Opportunities in Bozeman was just opening its doors in the fall of 1989. I approached them and was able to qualify for their program. Although their \$10,000 ceiling was not quite enough capital as I projected I would need to begin the business, it being the only ball game in town, I went through with the loan application and was the first recipient of a loan from them. My loan was received in January of 1990, but because of the technical nature of my business it was actually March before I was fully trained and ready to put out my first advertisement. Although I processed a few cartridges in March (literally, three), April was my first month of operation with 18 cartridges recharged. Sales doubled in May and I thought I was off to a good start. However, given the time of the year, with summer vacations, a general slow down in business activity and the processing of paper work, laser cartridges were not being used at a high rate resulting in no growth for a period of three months. The business was maintaining that level despite an active sales campaign. This resulted in cash flow problems.

Because of the flexible nature of the Capital Opportunities program, I was able to approach them with the problem and a solution. They agreed to defer my loan payments for three months. Without this option, I would not have been able to keep the business operating.

By the end of December, 1990, just nine months of active business, I grossed \$25,000 and was able to hire my first employee --- myself --- and a part-time telemarketing person.

Currently I have two part-time people helping me. I anticipate the need for a third part-time technical person within 3 to 6 months, possibly sooner. By the end of this year I am projecting that my business will double and I will need 2 full-time employees, as well as two part-time employees. Within two years, my projections are to have 4 to 6 full time employees.

These projections are based upon a conservative growth rate. However, there are a number of irons in the fire which could show a faster growth rate than this and if one or more of these avenues open up, I expect to have to hold onto my hat as well as my senses in order to keep up with the growth. This would, of course, require more employees.

During this year I have had monthly meetings with Capital Opportunities and the Department of Commerce, Small Business Development Center personnel. The technical assistance provided has been very valuable. I wholeheartedly support the need for technical assistance in this bill.

As an interesting side light, recently, the representatives of Capital Opportunities were approached by one of the banks that originally rejected my start-up loan. At the time I was in the midst of considering quoting on a deal that would bring \$150,000 into Montana and my business from outside of the state. Representatives of Capital Opportunities and myself met with the bank Vice President. The bank wanted to work with me on this particular deal. Although I was not successful in winning this bid, a business relationship is established for the next business venture of this nature that I enter into. I do believe that this level of financial backing would have taken me much longer to

achieve in the course of my growing business than it has while under the umbrella of Capital Opportunities.

I would like to conclude with a statement of personal sentiments. I am very interested in seeing businesses developed in the State of Montana which will create jobs. I am also highly in favor of and feel very positive about the State's strong business assistance program in the Department of Commerce. I view the growth and development of my business as important not only in a personal framework for personal gain and accomplishment but I view the success and development of Laser Star as an opportunity to create jobs for those who may have had experiences such as I did and an opportunity to contribute to the overall economic development of this great state of which I am privileged to be a citizen. Thank you.

Testimony to the Senate Committee on Business and Industry

April 5, 1991

by: Kelly Rosenleaf

MT WEDGo Client Services Manger

Joint Development Fund Accomplishments

The Joint Development Fund has been in operation for two and a half years. From it's inception through December 30, 1990, 53 loans were guaranteed to 47 businesses in the Missoula area for a total of over \$560,000. The Joint Development Fund, capitalized by the city and county of Missoula, is limited to the Missoula area. In November WEDGo obtained additional money, a loan from the MT Board of Investments to operate a loan fund serving women and men throughout the state. Although this statewide loan fund has generated extensive interest and many proposals are being developed, we do not have enough history with this program to offer any data at this time. We receive two or three inquiries per day from all over Montana, two loans have been approved and we have several proposals ready for February loan committee.

WEDGo commissioned a study of the Missoula area loan portfolio to see if we are serving those who are unable to obtain traditional financing, if the mix of businesses are similar to business growth in the state and the nation, how many jobs were created and the default and delinquency rates. I would like to share some of our findings with you today.

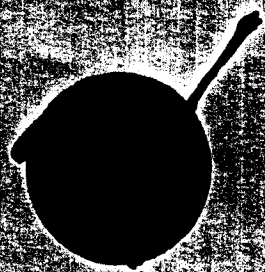
Our program is designed to help those who can not obtain financing from a bank on their own. Generally, this is a result of lack of adequate collateral and equity. Most of our clients have low to moderate incomes. Some of them were making good wages but had recently lost their job due to a lay off or injury. In fact, 27 of the 47 loan clients, 53% were making less than \$10,000 per year prior to starting the business. 33% were making less than \$5,000 per year. 27 loan guarantees, 57%, were made to start up businesses, another barrier to overcome when seeking capital.

The Small Business Administration statistics indicate that women are starting businesses in far greater numbers than men. Still, women have particular problems obtaining capital. This is in part related to low wages in female dominated professions and lack of personal credit experience. Almost half of the 47 business loans we guaranteed were made to female sole proprietorships; just under one-third were made to male sole proprietorships. Approximately one-fourth of the clients are either couples or female partnerships. We have only one loan to a corporation. Share holders originally were both men and women, however, it is now headed by female owners.

We serve a wide mix of businesses, in fact some quite unusual ideas come before our loan committee. Mirroring the growth in the national and state economy, most of the businesses that have received loans, about 70%, are in the service sector. 4 clients have animal commodities such as tropical fish, tropical birds, and low cholesterol pork. Another 15% have craft or light manufacturing businesses. About one quarter of our clients are in wholesale sales and another quarter are in retail sales. These figures total more than 100% because businesses may be coded in more than one category.

We encourage business owners to get out of their local economy and sell to a larger market whenever possible. 8 1/2 % have a state wide market; 17% serve a regional market; another 15% serve a national market; about 6% of our clients are serving an international market.

Our loan guarantee limit is \$15,000. It is not surprising that this is the most frequent loan amount requested. However, we have guaranteed loans for as little as \$2,000 and participated in deals, partially guaranteeing loans up to \$30,000. The average loan amount is about \$12,000 and the average term is 3.8 years. The loans were most commonly used for working capital, equipment or machinery, inventory and renovations.



IT'S HER BUSINESS

A Newsletter of the Montana Women's Economic Development Group

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 4A

DATE 4/5/91

CALL NO. 43477

Vol. 3, No. 1

Winter 1991

Loans Now Available for Micros Statewide

Microbusiness owners from Absorokee to Zurich now have access to the loans that WEDGo has been making available in the Missoula area for the past year. Montana's State Board of Investments loaned WEDGo \$100,000 to guarantee bank loans up to \$15,000 to microbusiness owners across the state.

Any Montana microbusiness with a viable start-up or expansion project is eligible. However, no research and development projects will be considered. Loans are made at participating banks, with WEDGo guaranteeing repayment. Interest rate is 2% above prime, about 12% at the time of this newsletter. An additional 2% is assessed for a loan default fund. The payback period can go up to five years.

The program, called the WEDGo Development Fund, is a model in which state money leverages private money for microbusinesses. The state money allows WEDGo to guarantee microbusiness loans, making them more attractive to Montana banks. Then, once a microbusiness establishes a lending relationship with a bank, future credit and capital needs are more likely to be met. The success of the WEDGo Development Fund will influence state legislators this winter, when they vote on a similar, larger-scale proposal for microbusiness loan guarantees called the Microbusiness Development Act.

Here's how you can apply for a WEDGo Development Fund loan guarantee:

Contact WEDGo for a brochure. It will explain who is eligible and what the loan packaging process is like.

Send \$3 for the WEDGo Development Fund loan packet, after reading the brochure and determining that you are eligible. The packet will guide you in preparing a business plan and other necessary documents.

Contact WEDGo and write your business plan. In the Missoula area and many other areas of Montana, WEDGo can provide or refer you to a consultant to help with this process. Please be in touch with us while writing your plan. We will be presenting your business plan to our loan committee, and we need to be familiar with you and your business.

Submit your proposal to the loan committee. A committee of three business owners, an accountant and an attorney review all applications. They can either approve, turn down, or approve with conditions your proposal. They meet the third Tuesday of each month, and complete business plans must be reviewed in the WEDGo office by the second Tuesday in order to be considered.

If your application is approved, WEDGo will work to have the loan made at a local bank. Once the loan is made, the terms of the guarantee require you to review your cash flow and business progress monthly with a WEDGo consultant.

One key section to prepare in your business plan for a loan is the cash flow: WEDGo looks for cash flows based on real-world research. For instance, sales rarely increase a set amount like 10% per month in real businesses, and they shouldn't in your projected cash flow.

(continued p. 5)

Cracking the Catalog Market

by Sally Mullen

Getting your products into the booming catalog industry is a real morale and financial boost to a small manufacturer or production craftsperson. It opens up markets and distribution channels that otherwise would be unattainable to most small operations, and can decrease the amount of time and money spent marketing and shipping.

Assuming you can produce enough to meet the catalog's needs, there are several approaches to selecting a suitable

Pay attention to patents and trademarks. Know your production capabilities and your lead time.

-Anita Golden, Wind Related

catalog. It is important to try for a mutually-beneficial fit between your product and the prospective catalog. This fit involves your product's quality and style, the right volume for you and the buyer, and a workable price for both. Just as in other marketing efforts, you need to market toward a niche.

There are several catalog directories, including *The Directory of Mail Order Catalogs* and *The National Directory of Catalogs*. Local libraries should have catalog information in their small business section, or at least information on how to contact the directory publishers.

The quarterly *Catalog Product News* runs pictures and descriptions of products. You pay a small fee to list your product the first time and a more substantial fee thereafter. This magazine goes to buyers for thousands of catalog companies, television shopping companies and direct marketing firms. This subscription service then matches up interested catalogers with producers by forwarding information to suppliers from interested catalogers.

Another way to select potential cata-

(continued p. 2)

SEPARATE BUSINESS

EXHIBIT NO. 4B

DATE 4/5/91

BILL NO. 148477

The WEDGo Development Fund



127 North Higgins
543-3550 728-9234

ROLL CALL VOTE

SENATE COMMITTEE BUSINESS AND INDUSTRY

Date 4/5/91 Bill No. HB477 Time 10 a.m.

NAME	YES	NO
SENATOR WILLIAMS	X	
SENATOR THAYER	X	
SENATOR NOBLE	X	
SENATOR HAGER	X	
SENATOR GAGE	X	
SENATOR FRANKLIN		
SENATOR BRUSKI	X	
SENATOR KENNEDY	X	
SENATOR LYNCH	X	

DARA ANDERSON

J.D. LYNCH

Secretary

Chairman

Motion: To AMEND

Amendments to House Bill No. 477
Third (Second) Reading Copy

Requested by Representative Mike Kadas

Prepared by Dave Bohyer
April 2, 1991

1. Page 19, line 15.

Following: "(1)"

Insert: "(a)"

2. Page 19, line 20.

Following: "appropriated"

Insert: ", subject to the provisions of subsections (1)(b) and
(1)(c),"

3. Page 20.

Following: line 3

Insert: "(b) The funds appropriated in subsection (1)(a) from the in-state investment fund to the department of commerce must remain in the in-state investment fund until the department has decided to make a loan to a certified microbusiness development corporation under the provisions of [section 5]. When the department has made the decision to make a loan to a certified microbusiness development corporation under the provisions of [section 5], the director of the department shall notify the state treasurer of the decision and direct him to transfer an amount equal to the amount of the loan from the in-state investment fund to the microbusiness development loan account created in [section 5].

(c) Funds may not be transferred from the in-state investment fund to the microbusiness development loan account for the purposes of [sections 1 through 9] except as provided in subsection (1)(b)."

ROLL CALL VOTE

SENATE COMMITTEE BUSINESS AND INDUSTRY

Date 4/5/91 Bill No. HB 477 Time 10 a.m.

NAME	YES	NO
SENATOR WILLIAMS	X	
SENATOR THAYER	X	
SENATOR NOBLE	X	
SENATOR HAGER	X	
SENATOR GAGE	X	
SENATOR FRANKLIN		
SENATOR BRUSKI	X	
SENATOR KENNEDY	X	
SENATOR LYNCH	X	

DARA ANDERSON

J.D. LYNCH

Secretary

Chairman

Motion: BE CONCURRED IN AS AMENDED

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
April 5, 1991

MR. PRESIDENT:

We, your committee on Business and Industry having had under consideration House Bill No. 477 (third reading copy -- blue), respectfully report that House Bill No. 477 be amended and as so amended be concurred in:

1. Page 19, line 15.

Following: "(1)"

Insert: "(a)"

2. Page 19, line 20.

Following: "appropriated"

Insert: ", subject to the provisions of subsections (1)(b) and (1)(c),"

3. Page 20.

Following: line 3

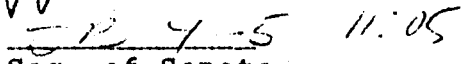
Insert: "(b) The funds appropriated in subsection (1)(a) from the in-state investment fund to the department of commerce must remain in the in-state investment fund until the department has decided to make a loan to a certified microbusiness development corporation under the provisions of [section 5]. When the department has made the decision to make a loan to a certified microbusiness development corporation under the provisions of [section 5], the director of the department shall notify the state treasurer of the decision and direct him to transfer an amount equal to the amount of the loan from the in-state investment fund to the microbusiness development loan account created in [section 5].

(c) Funds may not be transferred from the in-state investment fund to the microbusiness development loan account for the purposes of [sections 1 through 9] except as provided in subsection (1)(b)."

Signed:


John "J.D." Lynch, Chairman


Am. Coord.


Sec. of Senate