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Office of Program Policy Analysis And Government Accountability

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REVIEW OF STATE-SUPPORTED BUSINESS LOAN PROGRAMS

REPORT ABSTRACT

- **Florida's seven business loan programs vary with respect to their purposes and reported effectiveness. They also play a smaller role in providing financial assistance than commercial banks or the federal government.**

- **State-supported loan programs, with one exception, do not duplicate private sector and federal government efforts. Enterprise Florida should review the duplicative program to determine if it could be redesigned or whether it can terminate its agreement to provide $667,000 in matching funds.**

- **State loan programs are fragmented. This is not making the most effective use of resources. Moreover, businesses might have difficulty obtaining information and applying for loans**

PURPOSE OF REVIEW

The Office of Program Policy Analysis and Government Accountability was directed by the Joint Legislative Auditing Committee, in response to a request from the House Commerce Committee, to review state programs that provide loans to Florida businesses and determine their reported effectiveness.

This review focuses on programs that provide Florida businesses with direct loans or loan guarantees. It includes programs supported by the state through legislative appropriations, other allocations of state funds, or administrative support from a state agency. This review does not include venture capital programs, grant programs, loan programs for local governments, or housing finance programs. Our review focuses on programs that serve relatively small businesses.

STATE BUSINESS LOAN PROGRAMS

Florida supports seven programs that provide loans and loan guarantees to Florida companies. Since these programs were created they have helped provide 511 Florida companies with approximately $61 million in financing through direct loans and loan guarantees. The programs' purposes and reported effectiveness vary. Of the seven programs, three report achieving outcomes, two are not yet operational, one recently started and has made only one loan and one does not collect effectiveness information.

Seven state-supported programs make loans or provide loan guarantees to Florida companies. These programs have varying purposes, ranging from promoting exports to serving as a statewide development company for the U.S. Small Business Administration (SBA). Since these programs were created, they have helped provide 511 Florida companies with approximately $61 million in financing through direct loans and loan guarantees. A description of each program's purpose, target market, state support, loan activity, and reported effectiveness is provided in Exhibit 1.

Exhibit 1

State-Supported Business Loan Programs Have a Wide Range of Purposes And Report Varying Degrees of Effectiveness

Program (Year Created)	Purpose and Target Market	State Support[1]	Loan Activity /Reported Effectiveness
Black Business Investment Board (1985)	Oversee the state's investment in black business investment corporations, which loan money to black-owned businesses.	Appropriated $8 million of investment capital since 1985 and $445,000 for administrative expenses in 1996-97.	Helped 331 businesses receive $28 million in loans and helped create 2,161 jobs from inception to 9-30-95.
U.S. Economic Development Administration Revolving Loan Fund (1994)	Provide capital to manufacturing companies in the Tampa Bay region impacted by defense downsizing. Will be administered by a Tampa-based economic development organization.	No state administrative support. Enterprise Florida allocated $667,000 in state funds to the program to match a federal grant of $2 million.	Program is not yet operational—no loans made.
Energy Loan Program[2] (1991)	Provide low interest loans to small businesses undertaking energy conservation measures.	Funded by $3 million of the state's allocation of PVE[3] funds; receives staff support from the Department of Commerce.	Approved 62 loans totaling $1.5 million from inception to 5-31-96. The agency responsible for administering the program did not measure its effectiveness.
Florida Export Finance Corporation (1993)	Provide technical, financial, and consulting assistance to small exporters to increase exports of goods and services.	Appropriated $3.9 million of investment capital since 1993 and $250,000 for administrative expenses in 1996-97.[4]	Since inception, made 100 loan guarantees supporting $21 million in loans and $30 million in exports. Also supported an additional $119 million in exports in conjunction with the Federal Export-Import Bank.
Florida Development Finance Corporation (1993)	Provide long-term, competitive financing to small manufacturing companies.	Enterprise Florida expended approximately $50,000 on the program in fiscal year 1995-96.	Program is not yet operational—no loans made.
Florida First Capital Finance Corporation (1983)	Statewide development company for SBA program that provides mortgage financing for small businesses. Also administers Energy Loan Program and Recycling Development Fund.	Administrative support from the Department of Commerce (valued at $121,000 in 1995).	Made 34 loans totaling $11 million from inception to 12-31-95. Helped create /retain 808 jobs since inception.
Recycling Development Fund[2] (1995)	Expand markets for recyclable materials by helping small businesses purchase conversion machinery and equipment.	Funded by $2.4 million from the revenue generated by the ADF[5]; receives staff support from the Department of Commerce.	Has made one loan totaling $85,000 from inception to 7-31-96. Effectiveness information not available—program is too new.

[1] State support is from general revenue unless specifically noted.
[2] These programs are administered by the Florida First Capital Finance Corporation.
[3] PVE = Petroleum Violation Escrow funds.
[4] Of the $3.9 million in investment capital, $3 million was appropriated in fiscal year 1996-97 and has not yet been received by the Florida Export Finance Corporation.
[5] ADF = Advance Disposal Fee.

Source: Office of Program Policy Analysis and Government Accountability review of program documents and interviews with program officials.

The programs' reported effectiveness varies (see Exhibit 1). For example, two of the programs are not yet operational and have not made any loans; one program was started recently and has made only one loan; three programs report outcomes such as creating jobs or increasing exports; and one program does not collect effectiveness data.

State-supported business loan programs provide significantly less financial assistance to Florida firms than commercial banks or the federal government.

Banks traditionally have been the primary source of financing for small businesses. Two-thirds of all small businesses that borrow get their funds from commercial banks. According to Federal Reserve data, Florida's commercial banks held approximately $14.7 billion in small business loans (under $1 million in loan size) at June 30, 1995. Independent, community-based banks generally lend small businesses a greater share of their funds than large, multi-branch banks.

The federal government, through the U.S. Small Business Administration, also provides a significant amount of financial assistance to Florida companies. To promote access to credit, the SBA provides loan guarantees to participating lenders under a variety of programs. The SBA's products are typically directed toward small businesses unable to qualify for a conventional bank loan. In federal fiscal year 1994-95, the SBA helped provide a total of $325 million in credit to Florida businesses through its network of lenders. Thus, Florida's state-supported business loan programs, with $61 million in loans and loan guarantees since their creation, have provided significantly less financial assistance to Florida firms than commercial banks or the federal government.

Most loan programs supported by the state do not duplicate private sector and federal government efforts. However, one program receiving matching funds from Enterprise Florida will duplicate a U.S. Small Business Administration program.

Overall, state loan programs are more narrowly focused than private sector or federal government loan programs. The majority of state loan programs are designed to help achieve fairly specific goals, such as conserving energy, assisting black-owned businesses, increasing markets for recyclable materials, and promoting exports. On the other hand, the majority of private sector and SBA-guaranteed loans are for more general purposes. For instance, the SBA's Guaranteed Loan Program, under which most loan guarantees are made, is not for a specific purpose or type of small business.

Since state-supported loan programs have more specific purposes, they generally do not duplicate private sector and federal government programs. However, the Economic Development Administration (EDA) Revolving Loan Fund, once operational, will duplicate an SBA program. The Revolving Loan Fund and the SBA DELTA Program both provide financing to companies impacted by defense cuts. The EDA Revolving Loan Fund received $667,000 in matching funds from Enterprise Florida, while the SBA DELTA Program does not require a state match.

Changes in the structure of state loan programs are needed to increase overall effectiveness and make services more customer-friendly.

Currently, state loan programs are fragmented. Five of the seven state-supported loan programs are administered by different entities. Under the current structure, economies of scale and resource sharing are nearly impossible. This structure is not making the most effective use of limited state resources.

Further, the current program structure is not customer-friendly. With several fragmented programs, businesses might have difficulty obtaining information about the types of assistance available. Currently, there is no central resource that businesses can use to obtain information on all of the programs and apply for assistance.

Coordination with the private-sector and federal government is compromised under a fragmented structure. Optimally, the state should use its programs in conjunction with the private-sector and federal government to: (1) make the most use of private and federal government resources to benefit Florida companies; and (2) leverage the state's limited resources whenever possible. With several fragmented programs, coordination with the private sector and federal government becomes difficult.

Design changes in the Florida Development Finance Corporation are needed to increase the program's potential impact.

The Florida Development Finance Corporation (FDFC), an initiative of the Enterprise Florida Capital Development Board, will have a limited impact on economic development in this state under its current design. Enterprise Florida officials estimate the FDFC might be able to make a total of only $20 million to $25 million in loans. Since Enterprise Florida estimates that each loan will range from $500,000 to $2 million, the FDFC will be able to help only 10 to 50 companies. Enterprise Florida estimated that 1,250 Florida manufacturing firms need this level of financing.

Additionally, the FDFC will not sufficiently leverage private sector resources under its present design. Although four large commercial banks committed a total of $1.2 million to an FDFC bond guaranty reserve fund, the program could leverage additional private sector support by using bank letters of credit. The program's current design calls for revenue bonds backed by interest earnings on the State Transportation Trust Fund, which does not take advantage of bank letters of credit to leverage the FDFC's limited resources. By using bank letters of credit, the FDFC would allow banks to actively participate in the program and increase its potential impact.

Enterprise Florida officials recognize the shortcomings of the FDFC''s current design and are currently exploring alternatives that would alleviate problems such as limited impact and not sufficiently leveraging private sector resources.

We reviewed several other states' programs that are similar to the Florida Development Finance Corporation. These programs use a variety of means to guarantee their bonds, including bank letters of credit. For example, the state of Pennsylvania's industrial development bond program uses bank letters of credit from over 60 banks in the state to guarantee its bonds. These letters of credit leverage private sector funds and encourage banks to actively participate since they earn fees. The Pennsylvania program has achieved a relatively large scale ($450 million in loans since 1988), and become self-sufficient, covering all of its administrative costs from fees generated in the course of its operations.

CONCLUSIONS AND RECOMMENDATIONS

Florida currently supports seven loan programs that provide loans and loan guarantees to small businesses in this state. The programs' reported effectiveness varies. Since these programs were created, they have helped provide 511 Florida companies with financing totaling approximately $61 million. However, the amount of assistance provided under these programs is small compared to that provided by the private sector or federal government. Florida commercial banks held approximately $14.7 billion in small business loans at June 30, 1995. In federal fiscal year 1994-95, the SBA helped provide a total of $325 million in credit to Florida businesses. With the exception of one program, state-supported loan programs do not duplicate private sector and federal government efforts.

The fragmented structure of state-supported business loan programs inhibits the sharing of resources and administrative costs, is not making the most effective use of state resources, is not customer-friendly, and inhibits coordination with the private sector and federal government.

We recommend that:

- Enterprise Florida review the EDA Revolving Loan Fund to determine if: (1) it can be redesigned to be less duplicative of the SBA DELTA program; or (2) if it cannot be redesigned, whether Enterprise Florida can terminate its agreement to provide matching funds and reallocate those funds to other capital initiatives;
- The state integrate its financial assistance programs into Enterprise Florida's capital development initiatives to reduce fragmentation and make more effective use of state resources. This would involve combining functions, such as loan underwriting and servicing, and sharing other resources whenever possible. Additionally, Enterprise Florida could be responsible for marketing the various loan products and coordinating with banks and the Small Business Administration. These changes would help create a more customer-friendly environment. By integrating the different programs, Enterprise Florida could establish a one-stop center where businesses could apply for various state-supported business loans. Enterprise Florida should also coordinate its capital development activities with the Florida Black Business Investment Board and Black Business Investment Corporations whenever possible; and
- Enterprise Florida revise the design of the Florida Development Finance Corporation to increase the participation of the private sector through letters of credit or some other means of leverage.

AGENCY RESPONSE

The President of Enterprise Florida Capital Development Board agreed with our recommendations and described actions Enterprise Florida is taking to address our concerns. We also received responses from the Office of Tourism, Trade, and Economic Development and the Florida Export Finance Corporation. These responses are a public record and are available upon request.

This project was conducted in accordance with applicable evaluation standards. Copies of this report may be obtained by telephone (904/488-1023 or 800/531-2477), by FAX (904/487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302). Web site: http://www.state.fl.us/oppaga/

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