REPORT OF THE

VIRGINIA SMALL BUSINESS COMMISSION

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 30

COMMONWEALTH OF VIRGINIA
RICHMOND
1997

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Report of the
Virginia Small Business Commission
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
1997

To: The Honorable George F. Allen, Governor,
and
the General Assembly of Virginia

I. INTRODUCTION

A. COMMISSION BACKGROUND AND PURPOSE

The Virginia Small Business Commission, established by the 1995 Session of the Virginia General Assembly, is required by its enabling legislation (Va. Code § 9-336 et seq.) to undertake the following:

- Evaluate the impact of existing statutes and proposed legislation on small businesses.
- Assess the Commonwealth's small business assistance programs and examine ways to enhance their effectiveness.
- Provide small business owners and advocates with a forum to address their concerns.
- Report annually its findings and recommendations to the governor and the General Assembly.

The commission is comprised of 14 members, including six members from the House of Delegates, four members from the Senate and four at-large members appointed by the governor. The at-large members are required to be individuals with small business experience or expertise.

The following General Assembly members served on the commission in 1996: Senators Stanley C. Walker of Norfolk, Charles R. Hawkins of Chatham, Janet D. Howell of Reston, and Edward L. Schrock of Virginia Beach, together with Delegates A. Victor Thomas of Roanoke, I. Vincent Behm, Jr., of Hampton, Robert S. Bloxom of Mappsville, Vincent F. Callahan, Jr., of McLean, Glenn R. Croshaw of Virginia Beach and Franklin P. Hall of Richmond. Gubernatorial appointees serving in 1996 were Robert A. Archer of Salem, Thomas E. Inman II of

Williamsburg, Jorge M.P. Ponce of Centreville and Bernice E. Travers of Richmond. Senator Walker served as the commission's chairman, and Delegate Thomas as its vice chairman.

B. SUMMARY OF THE COMMISSION'S 1996 ACTIVITIES

The commission's 1996 activities included receiving its second annual briefing from the Department of Business Assistance concerning the current status of the Commonwealth's small business financing and development programs. Information from that briefing spurred commission activity in aid of the Virginia Small Business Finance Authority's Child Day Care Financing Program, a program commission members view as vital to working parents employed by small businesses. The commission also reviewed Virginia's recent health care reform legislation and assessed its current impact on the affordability and availability of health care coverage in the small business community.

At the request of the 1996 General Assembly Session, the capital access needs of rural small business enterprises were examined by a commission subcommittee pursuant to House Joint Resolution 34 (1996). The commission also reviewed initiatives to promote Virginia's export industry through an export loan guaranty program, and to furnish an exemption from state court jury service for sole proprietors (paralleling an exemption provided by the federal courts).

Finally, the commission's continued interest in encouraging links between Virginia's small business community and high technology led to a commission meeting at the Thomas Jefferson National Accelerator Facility (Jefferson Laboratories) in Newport News. Technology developed at Jefferson Laboratories is being made available to aid small business development through consulting and technical services and cooperative ventures.

II. REPORTS AND BRIEFINGS RECEIVED BY THE COMMISSION

A. SMALL BUSINESS AND ECONOMIC DEVELOPMENT

The commission began its 1996 activities by examining the role of small business in state economic development plans. Commission members had expressed concern that recent successes in bringing large business development to the Commonwealth could be overshadowing needed economic development promotion for small business as well.

Wayne Sterling, executive director of the Virginia Economic Development Partnership, told the commission that the partnership supports Virginia's small business principally by working to attract large businesses to Virginia. These larger businesses, in turn, frequently provide work to small businesses through initial site construction, outsourcing, and subcontracting. The partnership, Sterling said, will serve as the sales force for economic development in the Commonwealth. He added that in his view the most effective programs assisting small businesses are the financing programs administered by the Virginia Small Business Financing Authority (SBFA) and the management counseling programs made available through the Virginia Small Business Development Centers (SBDC).

B. UPDATE: VSBFA AND SBDC PROGRAMS.

The Virginia Small Business Development Center (SBDC) program provides management assistance and technical advice to small and medium-sized start-ups and existing businesses (*Appendix A*). Representative SBDC clients are companies with fewer than 100 employees. Funded by federal, state and private financing, twenty-one SBDC locations throughout Virginia have provided statewide coverage for this program since 1992. The federal Small Business Administration furnishes approximately $1.5 million each year; the General Assembly approximately $700,000. Additional funding comes through localities' matching funds.

The 1996 General Assembly appropriated $500,000 per year to the SBDC program in the current budget biennium. According to Rob Blackmore, director of small business and financial services for the Department of Business Assistance, approximately $350,000 will be used each year for client counseling and training, while the balance will support new offices in Alexandria and Martinsville, new computer equipment and staff professional development. A portion will also be used for a federal Small Business Administration-sponsored minority lending demonstration project. The SBDC program's broader priorities include the implementation of improved program evaluation standards, including regular examination of such issues as jobs created or saved through the SBDC program.

The Virginia Small Business Financing Authority (VSBFA) offers a variety of loan and guaranty programs through public-private partnerships to provide financing to Virginia businesses for growth and expansion (*Appendix B*). The authority offers industrial development bonds, a loan guaranty program, export financing assistance and similar programs including a defense conversion and child day care financing programs. The commission learned that the VSBFA's Loan Guaranty Program is at capacity, and that the VSBFA hopes to modify this program and utilize private/public-funded loan-loss reserve funds to maximize the program's potential outreach. As discussed below, the commission took a keen interest in the VSBFA-funded Child Day Care Financing Program, a program providing loans of up to $25,000 for improvements in child day care programs and facilities.

C. Health Care Reform and Virginia's Small Business Community

Since 1992, the Virginia General Assembly has focused health care reform activities on Virginia's small business community. Commission members wanted to know whether these efforts have been effective or beneficial, and they invited a representative of the Joint Commission on Health Care to furnish an overview and evaluation of these insurance reforms (*Appendix C*). The commission learned that only one-third of Virginians with health care coverage are covered by plans subject to state regulation by the State Corporation Commission's Bureau of Insurance. Consequently, Virginia's small group reform legislation (affecting employee groups with fewer than 99 members) limiting the exclusionary period for pre-existing conditions to 12 months prohibiting carriers from excluding group members and requiring guaranteed renewability of policies sold to these groups does not govern health care coverage for a majority of Virginians.

The essential and standard plans developed in conjunction with small employer market reform legislation have apparently had minimal market impact. According to the Joint Health Care Commission, as of March 1, 1996, three insurance carriers reported issuance of guaranteed issue plans to only 15 employers which collectively furnished coverage to 65 individuals. Trigon Blue Cross Blue Shield separately reported selling guaranteed issue products to only three employers as of June 27. Reasons offered for this modest impact include the recent enactment of this legislation; a suggestion that carriers have little incentive to market these plans; and that carriers and insurance agents believe the essential and standard plans are difficult to market and need to be revised.

The Joint Commission reported, however, that recent federal health care legislation will be beneficial to employees of small business. HR 3103 (also known as the Kennedy-Kassebaum bill) will become effective July 1, 1997, and is generally applicable to all state- and federally regulated health care coverage plans. Key provisions in this measure (i) prohibit group health plans from excluding individuals or charging premium differentials based on health status, (ii) limit exclusions for preexisting conditions to 12 months, and (iii) require credit for waiting periods served in previous coverage.

Other provisions in HR 3103 establish a pilot program permitting certain small businesses with fewer than 50 employees to obtain tax deductions for medical savings accounts. The 1997 General Assembly passed House Bill 2887 and Senate Bill 1112, identical bills which operate to conform Virginia's health care laws to the new federal requirements established by HR 3103 described above.

D. SMALL BUSINESS AND HIGH TECHNOLOGY

The commission convened its October meeting at the Thomas Jefferson National Accelerator Facility (Jefferson Laboratory) in Newport News to discuss the impact of high technology research and development on small business activity in Virginia. Commission members toured the facility, which represents a $600 million investment by the federal government, the Commonwealth of Virginia, and the City of Newport News. They were also were briefed on the laboratory's ongoing contribution to nuclear research through electron acceleration technology projects serving an international user community of 1,000 scientists (*Appendix D*).

The commission learned that Jefferson Laboratories is making its technologies available to aid small business development through consulting and technical services and cooperative ventures. It currently sponsors a mentoring program to expand the abilities of small disadvantaged businesses, and its long-term projects include working with the City of Newport News and others to build a research and development park near its facilities where incubator space for small companies with interests in laser technologies will be provided.

III. CHILD DAY CARE FINANCING PROGRAM

The Child Day Care Financing Program provides loans of up to $25,000 for improvements in child day care programs and facilities. The Program is administered by the Virginia Small Business Finance Authority (VSBFA). Since many small business employees require daily child care assistance, the commission has followed this VSBFA program and monitored its yearly activities. Rob Blackmore from the Department of Business Assistance advised the commission that funding for the Child Day Care Financing Program had not been requested in Virginia's 1996-1998 Child Care and Development federal block grant application as submitted by the Council on Child Day Care and Early Development Programs. Since the program depends entirely on these block grant funds for its operating funds, by the summer of 1996 it had no means of underwriting new loans.

A commission subcommittee was established to determine why this program was excluded from the council's block grant plan and whether the plan could be amended to obtain funding for this program. Subcommittee members included Senator Howell (subcommittee chairman) and Delegates Hall, Bloxom and Callahan, together with Thomas Inman and Robert Archer. The subcommittee received testimony from Virginia Small Business Financing Authority (VSBFA) and Department of Social Services (DSS) representatives concerning the operating history of the program and the Council on Child Day Care and Early Development Program's preparation of the 1996-1998 federal block grant application. At the time of the subcommittee meeting, DSS had taken responsibility for the plan because the council had been phased out effective July 1, 1996.

Karen Alyward from the VSBFA advised the subcommittee that 1994-1996 federal block grant funding allocated to the Child Day Care Financing Program in fiscal year 1995 was $360,000, and in 1996, $218,000 (*Appendix E*). In 1996, the total funding spent for the loan program was $785,000, resulting in 72 loans creating 1,032 child day care spaces and 51 new jobs. In June 1996, the VSBFA was informed by the Department of Social Services that the program would be discontinued. Alyward said that there were then pending nine applications for approximately $135,000 in loans. During the program's three years of operation, 91 loans were made: 47 for child day centers (resulting in 2100 new spaces) and 44 for family home providers.

DSS Commissioner Clarence Carter testified that total funding requested for the 1996-1998 federal Child Care and Development Block Grant program was approximately $17 million, and he confirmed that funding for the Child Day Care Financing Program was not included (*Appendix F*). He noted that the plan reflected a determination that the Commonwealth's inventory of day care resources is sufficient to meet the needs of Virginia's working families. But while day care may be available, it may not be affordable for working parents heading low-income families who are not receiving public assistance. Consequently, he said, Virginia's 1996-1998 block grant plan targeted these at-need families for day care assistance. A representative plan component funds the "Virginia Head Start Parent to Work Program," a program furnishing subsidies for before- and after-school child day care to working parents whose children are enrolled in the Head Start program.

The subcommittee expressed concern that provisions in state and federal welfare reform legislation requiring recipient work could result in a shortage of day care slots--particularly for infants. Its members voted to recommend that the Virginia Small Business Commission, in coordination with the Commission on Early Childhood and Child Day Care Programs, urge immediate action by the Secretaries of Commerce and Trade (VSBFA's secretariat) and Health and Human Resources (DSS' secretariat) to seek amendment to the federal block grant plan to secure funding for the Child Day Care Financing Program in 1996-1998. Senator Howell sent correspondence dated August 6, 1996, to Secretaries Skunda and Metcalf requesting this action (*Appendix G*).

Senator Howell reported to the commission at its October meeting that she had received a reply to her letter from Commissioner Carter (on behalf of the Administration) indicating that DSS planned in the short term to fund approximately $170,000 in pending Child Day Care Financing Program loan requests (*Appendix H*). Commissioner Carter further indicated his intent to establish a task force for the express purpose of examining the larger issue of state support for day care programs in the Commonwealth. Commission members voted to advise the Administration of the commission's strong interest in participating in this task force's activities. Senator Howell communicated that request to Commissioner Carter by correspondence dated October 24, 1996 (*Appendix I*).

IV. RURAL CAPITAL ACCESS STUDY (HJR 34)

House Joint Resolution 34 (1996) directed the commission to study the capital access needs of small businesses engaged in agribusiness, agriculture and aquaculture (*Appendix J*). The resolution called for an examination of the current sufficiency of financing for new and expanding business operations in these principally rural markets. A commission subcommittee chaired by Delegate Thomas was established to receive testimony on these issues from representatives of Virginia's agriculture, banking, academic, and regulatory communities.

By way of background, the HJR 34 study was a recommendation of a 1995 joint subcommittee studying alternative strategies for assisting the Commonwealth's tobacco farmers. That subcommittee determined that Virginia lacks a strategy for attracting privately managed investment and working capital to its rural agricultural communities. The subcommittee also concluded that the lending criteria and capital limits for Virginia's current economic development financial assistance programs currently favor manufacturing and industrial business. Consequently, this study was recommended by the joint subcommittee.

A Virginia agriculture department representative told the HJR 34 subcommittee that lending requirements can be daunting to prospective borrowers in rural communities--particularly for those seeking capital for new ventures. For example, a tobacco farmer hoping to enter hog production as a sideline business is likely to need a comprehensive business plan, available cash sufficient to provide a 20 to 30 percent equity stake in this new venture, transferable experience in operating such a business, and knowledge of the industry--in this case, hog production. According to Wayne Purcell, a Virginia Tech. professor working with that institution's Rural Economic Analysis Program (REAP), these requirements may be insurmountable for many, resulting in a credit gap for farm and nonfarm small businesses in rural areas.

Purcell told the subcommittee that a REAP study is underway to gauge the extent of this credit gap, and to determine whether access to credit in rural communities is a serious barrier to economic development (*Appendix K*). The study, aimed at identifying the presence, nature and magnitude of these barriers, was concentrated on Brunswick, Halifax, Grayson, Mecklenburg and Patrick Counties. Approximately 2,000 surveys were sent to a random sample of farm and nonfarm businesses located within the survey area. The survey posed questions about credit availability, access and denial.

A sampling of REAP survey data Dr. Purcell presented to the subcommittee showed that lack of business experience, poor credit history, current debt load, and projections of insufficient cash flow were several of the recurring, key reasons for credit denials for many small business loan applicants. Moreover, the rejection rate is significant. One regional bank estimated its turn-down rate for such loans at 20 to 30 percent. Dr. Purcell noted that a broader picture would emerge from the completed survey, scheduled to be concluded by the end of 1996[1]. He projected that REAP's analysis of the collected data would be completed and furnished to the Small Business Commission by mid-1997.

A representative of Virginia's banking community advised the joint subcommittee that Virginia's banks are actively lending in the agricultural sector (*Appendix L*). Lending statistics show, for example, that a major regional bank with numerous branches in Virginia is currently responsible for at least 12 percent of all agricultural credit extended in the Fifth Federal Reserve District.
He noted, however, that banks' reserve levels are regulated and linked to the soundness of lending portfolios. Consequently, high turn-down rates for new ventures may in many cases simply reflect sound credit criteria rather than resistance to credit extension or economic development. A Virginia Farm Bureau representative also advised the subcommittee that in a recent survey of the Farm Bureau's membership, credit access was not identified as an area of significant concern.

Capital access programs currently deployed in Virginia and in other states offer possible structures for a statewide response if rural credit access is identified as a problem requiring the Commonwealth's assistance. The Virginia Small Business Finance Authority (VSBFA), for example, recently utilized an appropriation of $100,000 to leverage over $1.5 million in banking loans to small businesses for start-up and expansion purposes (*Appendix M*). Patterned after a successful capital access model developed in Michigan, this VSBFA capital access program has been conducted with Central Fidelity Bank on a pilot basis.

The program enables private lending to higher risk business loan applicants by means of a loan-loss reserve fund to which both borrowers and lenders each contribute between 1.5 to 3.5 percent of the loan principal. The VSBFA then makes a matching contribution equaling borrower and lender contributions, thereby establishing a total loss reserve "premium" for the private lender (Central Fidelity in the case of the pilot program) of between 6 to 14 percent each time it makes a capital access program loan . Thus, while the VSBFA is neither lending the money, nor guaranteeing its payment, it encourages lending to a higher-risk loan applicant pool by helping the private lender insure against potential losses.

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[1] These results are discussed later in this report and are presented in Appendix N.

According to an VSBFA representative testifying before the HJR-34 subcommittee, the VSBFA capital access pilot program could be expanded to address the kinds of credit needs identified in the REAP survey. The key to this program's success in Virginia and in other states is its flexibility: It can be adapted to any small business need ranging from working capital to lines of credit. Moreover, it is suitable for any line of business. Additionally, he said, lenders participating in such programs would not be likely to put all small business loans into capital access pools since these higher risk loans would naturally require higher rates of interest, and most borrowers would prefer to obtain conventional financing.

The subcommittee discussed the range of potential responses to possible rural capital access problems, expressing particular interest in the current VSBFA pilot with Central Fidelity as a model for capital access programs targeting rural small business development. Delegate Thomas reported on the subcommittee's work and findings to the full commission, noting that subcommittee members anticipated that the completed REAP survey would furnish more detailed data about the actual presence and extent of rural small business credit gaps.

Dr. Purcell furnished a written report of the REAP survey's preliminary findings (based on the completed survey) to the subcommittee in January 1997 (*Appendix N*). A principal survey finding was that furnishing satisfactory loan collateral and cash flow were the chief barriers small business loan applicants face when seeking debt financing for their businesses. Since insufficiencies in both areas are typical of start-up businesses, the report concluded that this may indicate a lending market inadequacy contributing to economic development restriction in rural areas. The report also noted that most survey respondents were unaware of existing state and federal lending programs for small businesses. This suggested, the report concluded, that improved promotional outreach to banks by state and federal sponsoring agencies (coupled with paperwork reduction strategies and assurances of program effectiveness) would be the most efficient publicity for these lending programs.

A bill establishing a statewide program modeled after the VSBFA pilot program was introduced in the 1997 General Assembly Session as House Bill 2424. The bill, patroned by Delegate Thomas, established the Virginia Small Business Growth Fund. The Fund, to be administered and managed by the Virginia Small Business Financing Authority, will used as a special reserve fund to cover potential future losses from the loan portfolios of participating banks and lending institutions. A summary of the legislation estimated that an investment of $500,000 by the Commonwealth into the Fund would leverage $10 million in loans for more than 200 small Virginia businesses. The bill was passed and signed into law by the governor (*Appendix O*). Additionally, a $350,000 general fund appropriation approved by the 1997 Session will provide state financing for this program in the second year of the current budget biennium (1997-1998).

V. OTHER MATTERS BEFORE THE COMMISSION

Delegate Thomas, the commission's vice chairman, brought to the commission's attention a federal jury duty exemption aiding small businesses. The federal jury duty provision exempts from jury duty individuals who alone perform services for a business, commercial or agricultural enterprise and whose services are so essential that the enterprise must close or cease to function if the individual were required to perform jury duty. House Bill 1560 was introduced by Delegate Thomas in the 1997 Session of the General Assembly; the legislation was enacted and subsequently signed into law by the governor (*Appendix P*).

The commission was also alerted to legislative efforts to establish an export loan guaranty fund for Virginia businesses. Delegate Thomas advised the commission of his intentions to re-introduce legislation after a 1995 bill creating such a fund was vetoed by the governor. He subsequently introduced, in the 1997 Session, House Bill 1561, which created the Virginia Export Loan Guaranty Fund. The bill, as passed by the General Assembly and signed by the governor, establishes the fund to be administered and managed by the Virginia Small Business Financing Authority (VSBFA) (*Appendix Q*). The fund will permit VSBFA to guarantee up to 90 percent of the principal amount of commercial loans (up to a maximum of one million dollars) made by a lender for the purpose of facilitating the sale of goods, products or services outside the United States by persons, firms or corporations which utilize a Virginia air-, land- or seaport to ship such goods, products or services.

Respectfully submitted,

Stanley C. Walker, Chairman
A. Victor Thomas, Vice Chairman
I. Vincent Behm, Jr.
Robert S. Bloxom
Vincent F. Callahan, Jr.
Glenn R. Croshaw
Franklin P. Hall
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Virginia
Small
Business
Financing
Authority

Office of the Governor

Secretary of Commerce and Trade

Virginia Department of Business Assistance

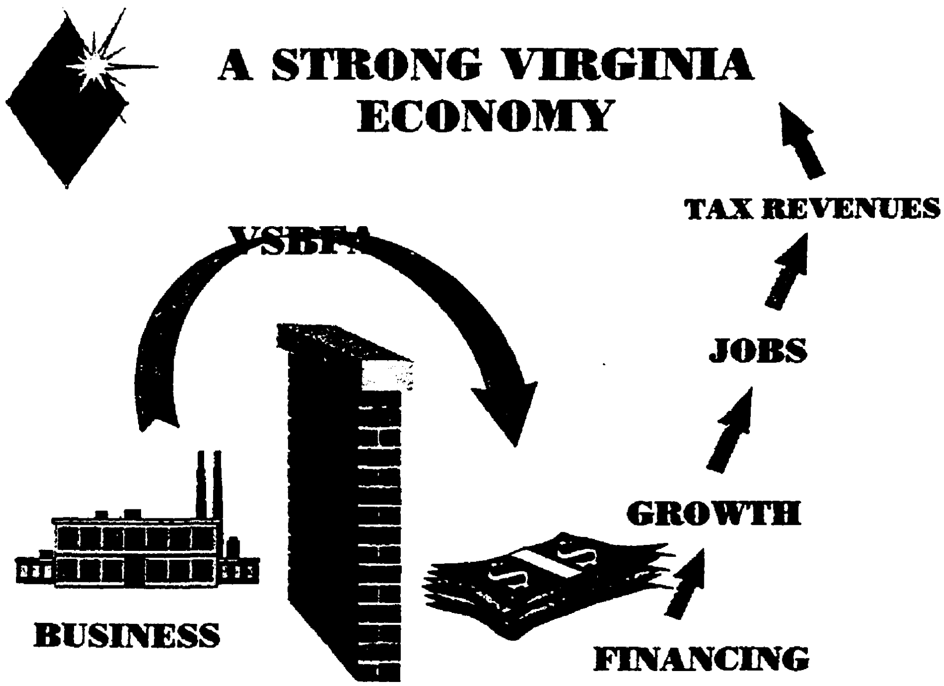
Virginia Small Business Financing Authority

Virginia Small Business Financing Authority

Created in 1984 by the Virginia Legislature, VSBFA offers a variety of loan and guaranty programs through public-private partnerships to provide Virginia businesses with financing needed for growth and expansion.

Virginia Small Business Financing Authority

VSBFA's mission is to promote Virginia's economic development objectives by providing a broad range of financing programs.



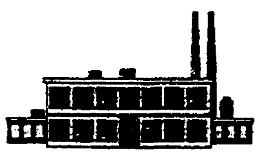
Virginia Small Business Financing Authority

The legislation creating the Virginia Small Business Financing Authority enables VSBFA to:

- **Issue bonds**
- **Make direct loans**
- **Provide guarantees**
- **Offer insurance**
- **Provide other financial assistance to encourage investment of private capital in businesses in the Commonwealth**

Virginia Small Business Financing Authority Programs

- Industrial Development Bonds and the Umbrella Bond Program
- Loan Guaranty Program
- Export Financing Assistance Program
- Child Day Care Financing Program
- Economic Development Revolving Loan Fund
- Defense Conversion Revolving Loan Fund
- Virginia Capital Access Pilot Program



Industrial Development Bond Program

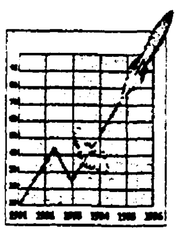
Goal: Facilitate low-interest, long-term financing for fixed assets

- Statewide issuer of tax-exempt & taxable industrial development bonds
- Long-term financing for land, buildings and equipment
- Below-Prime interest rates on tax-exempt issues
- Competitive market rates on taxable issues

Umbrella Bond Program

Goal: Increase access to public bond market for smaller projects

- Lowers project size threshold
- Reduces legal fees and closing costs
- AA credit rating lowers interest rates
- Uniform approach facilitates placement process



Loan Guaranty Program

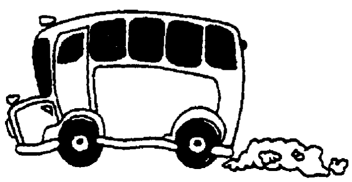
Goal: Increase access to short-term financing

- Loans and lines of credit for working capital and other short-term financing needs
- Provides a 50% guaranty, up to $250,000
- "User friendly" guaranty program for banks and borrowers

Export Financing Assistance Program

Goal: Increase access to capital for international trade opportunities

- **Export financing education and counseling**
- **Local, direct access to federal export loan guaranties and export credit insurance**
- **90% guarantee from SBA or Eximbank for export working capital**
- **Eximbank Umbrella Policy to insure foreign accounts receivable**



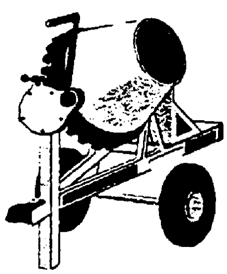
Child Day Care Financing Program

Goal: Increase access to capital for quality enhancements to child day care centers

- **Licensed Day Care Centers , including nonprofit and religious exempt centers, are eligible to apply and Family Home Providers.**
- **Installment loans from $1,500 to $25,000**
- **Fixed rate loans (interest rate - 3% below prime)**
- **Some uses include:**
  - **Child care equipment, playground equipment, vehicles, minor renovations to facilities**

Child Day Care Financing Program Impact

- Over $1 million in financing approved
- Over 2,500 new child care spaces and 110 new employment positions created
- More than 5,000 children served in over 91 centers and family day homes
- Pending application - $110,500



Economic Development Revolving Loan Fund

Goal: Increase access to long-term fixed asset financing

- **Federal and State funds**
- **Direct loans up to $700,000**
- **Supplements private sector financing**
- **Below-market interest rates**
- **Land, buildings and equipment**

Defense Conversion Revolving Loan Fund

Goal: Promote commercialization of defense-dependent companies

- Direct loans up to $700,000 to companies with operations affected by defense downsizing
- Working capital and fixed asset financing
- Below-market interest rates
- Flexible repayment terms

Pilot Program

Virginia Capital Access Program

Goal: Stimulate greater private sector lending

- Provides loan loss reserve fund for participating banks through matching VSBFA contributions
- Non-bureaucratic approach to public sector financing
- Maximizes return on public investment
- Easy access to capital for business

Virginia Small Business Financing Authority

Economic Impact

- $212 million in Financing
- 14,197 Jobs generating $13.7 million in annual state sales and personal income Tax Revenues
- Other State and Local Tax Revenues

The VSBDC:

Virginia's Business Development Network

is an

Economic Development

Program.

VSBDC

MISSION STATEMENT

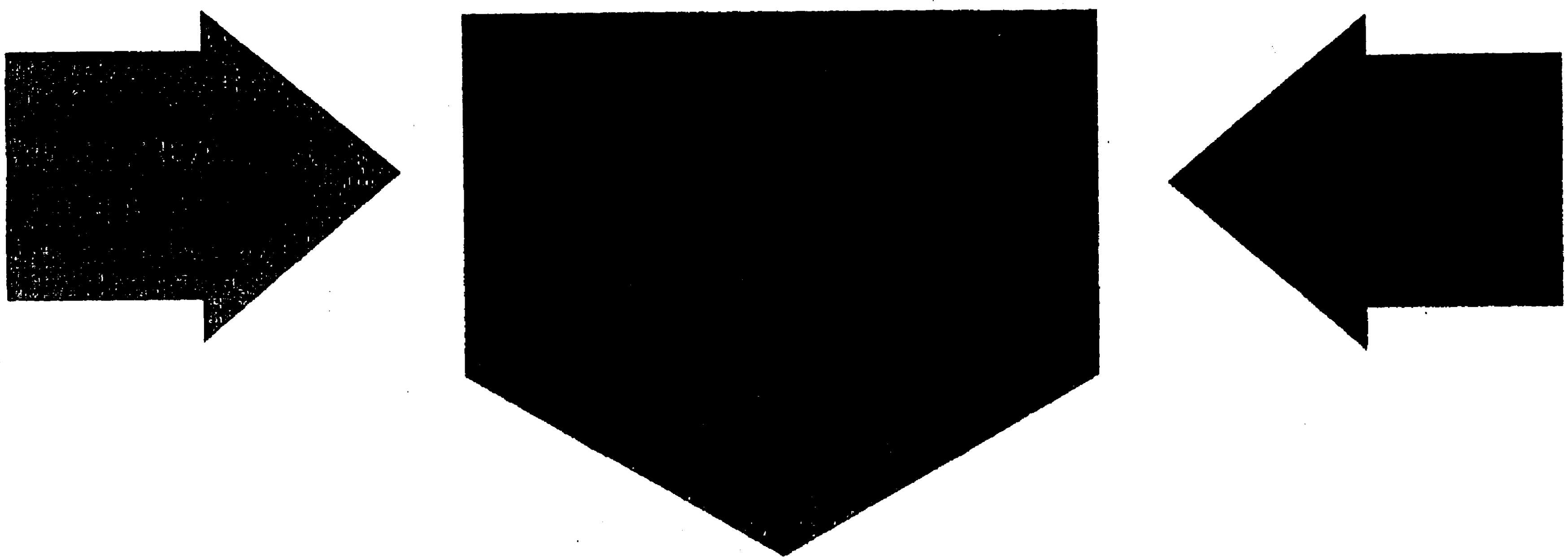
VSBDC

Virginia's Business Development Network

is an **economic development program** designed to contribute to the growth and development of Virginia's economy by providing management, technical and other assistance to existing and potential, small and medium-sized businesses throughout the Commonwealth.

VSBDC

Partnership Program



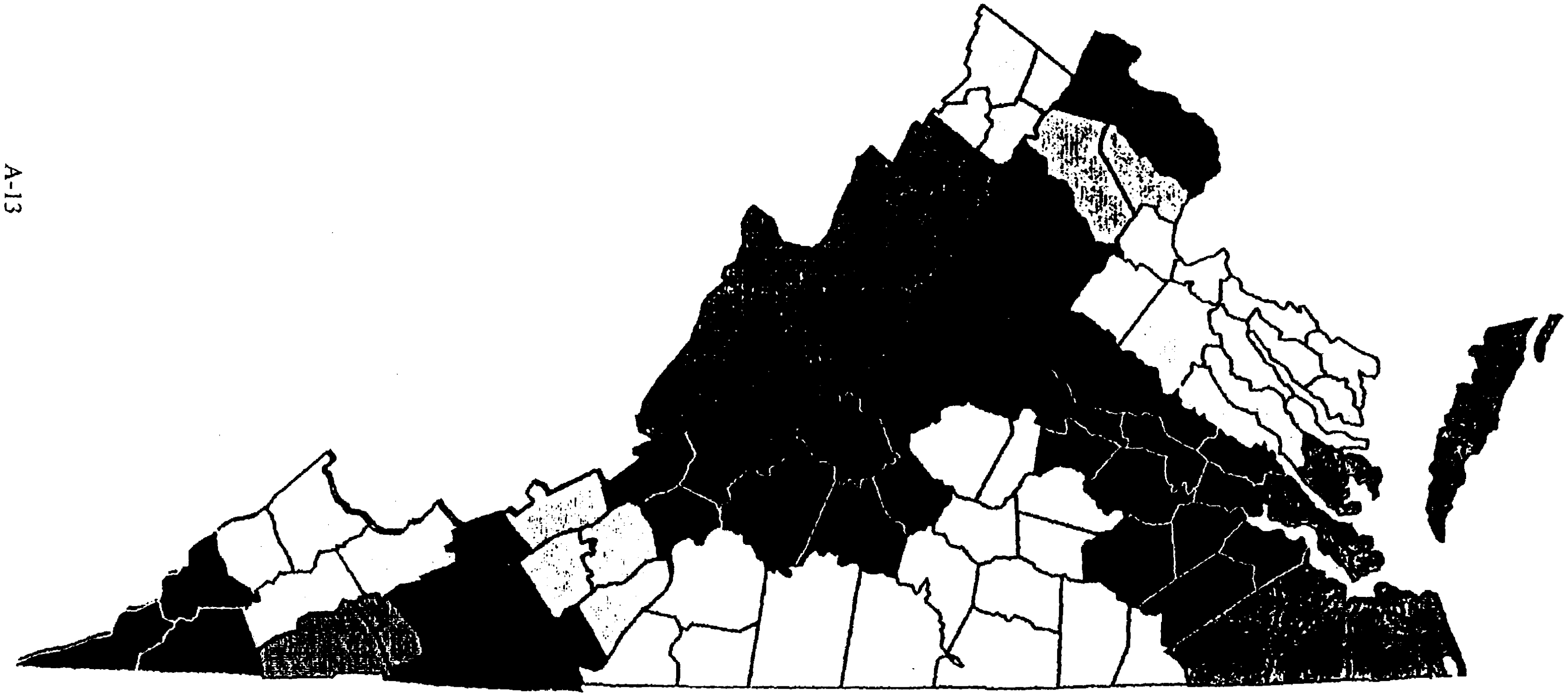
A wide variety of local organizations, including:

Chambers of Commerce, Universities, Banks, Industrial Development Authorities, Colleges, Non-profits, Community Colleges, Corporations

VSBDC

21 LOCATIONS

STATE-WIDE COVERAGE SINCE 1992



New State Funding for SBDCs

- $ 500,000 per year
  - $ 50,000 Alexandria
  - $ 50,000 Martinsville/Henry County
  - $ 40,000 MIS Equipment
  - $ 10,000 Professional Development
  - $ 350,000 Counseling/Training

- New Funding Requires 1 for 1 Match
  - 1/2 Cash
  - 1/2 In-kind services

- Applications due August 1

- Awards on September 1

Evaluation Factors

- Source and amount of local match
- Unemployment rates in service area
- Geographic distribution
- Business population to staff ratio
- Jobs created/saved
- Counseling hours to staff ratio
- Case load to staff ratio
- New capital investment
- Current level of funding

Assessing The Impact of Recent Health Care Reforms on Virginia's Small Business Community

Presented to: The Small Business Commission

Patrick W. Finnerty
Senior Health Policy Analyst

October 3, 1996
Newport News, Virginia

Assessing The Impact of Recent Health Care Reforms on Virginia's Small Business Community

2

Presentation Outline

- ☐ *Overview/Status of Past Health Insurance Reforms*
- ☐ Guaranteed Issue In Virginia's Individual Market
- ☐ Federal Reform
- ☐ Conclusions and Policy Options

Overview/Status of Past Health Insurance Reforms

3

Small Group Reforms (2-49) Enacted in 1992

- Reduced waiting periods for pre-existing conditions
- Required carriers to provide credit for waiting periods served in previous coverage
- Prohibited carriers from excluding persons from the group
- Required guaranteed renewability of all products
- Extended reforms to groups up to 99 employees in 1996

Overview/Status of Past Health Insurance Reforms

4

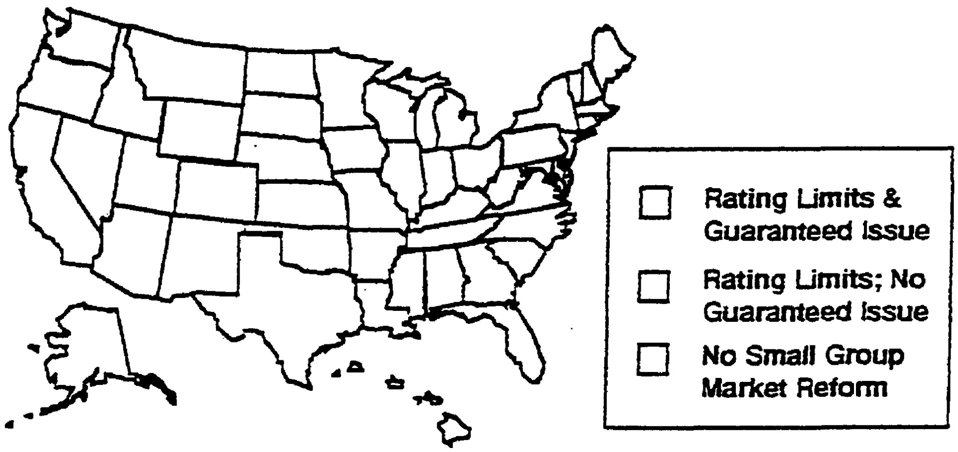
Primary Small Group Reforms (2-25) Enacted in 1993/94

- Guaranteed issue of the Essential and Standard Plans
  - plans developed by Essential Health Services Panel
- Modified community rating for the Essential and Standard Plans
  - community rate can be adjusted + - 20% based on health status of group
- Carriers can market other plans without guaranteed issue or modified community rating

Overview/Status of Past Health Insurance Reforms

5

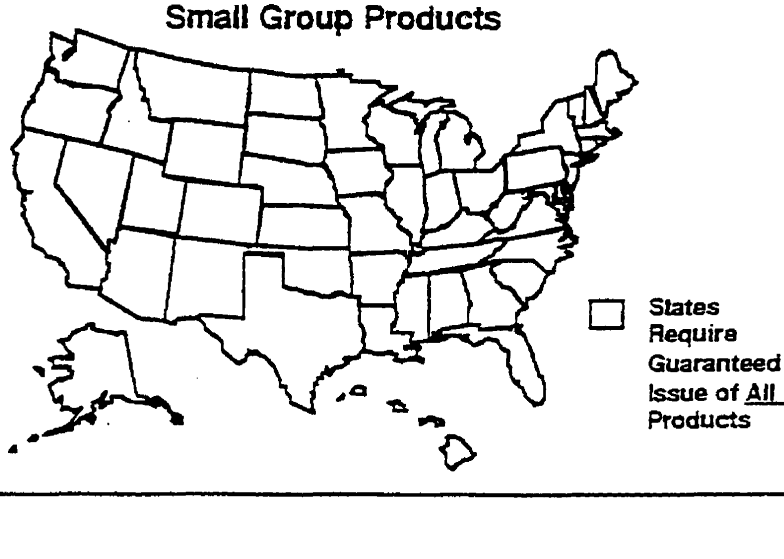
Virginia's Reforms Are Similar To Other States



Overview/Status of Past Health Insurance Reforms

6

14 States Require Guaranteed Issue of All Small Group Products



Overview/Status of Past Health Insurance Reforms

7

Status of Virginia's Primary Small Group Reforms

- Carriers were required to have products in the market by October 28, 1995
- As of June 17, 1996, 87 carriers had registered as Small Employer Carriers, 64 of the 87 also registered as Primary Small Employer Carrier
- Issuance of Essential & Standard Plans has been minimal
  - March 1: three carriers reported issuance of guaranteed issue plans to 15 employers covering 65 persons
  - Trigon reports selling guaranteed issue products to only 3 employers as of June 27

Overview/Status of Past Health Insurance Reforms

8

Status of Virginia's Primary Small Group Reforms

- Possible reasons for minimal impact of guaranteed issue and modified community rating reforms:
  - Reforms recently enacted
  - Carriers have little incentive to market the Essential & Standard Plans
  - Carriers and insurance agents believe Essential & Standard Plans are difficult to market and need to be revised
    - 21-day inpatient benefit
    - dental benefits in Standard Plan

Assessing The Impact of Recent Health Care Reforms on Virginia's Small Business Community

9

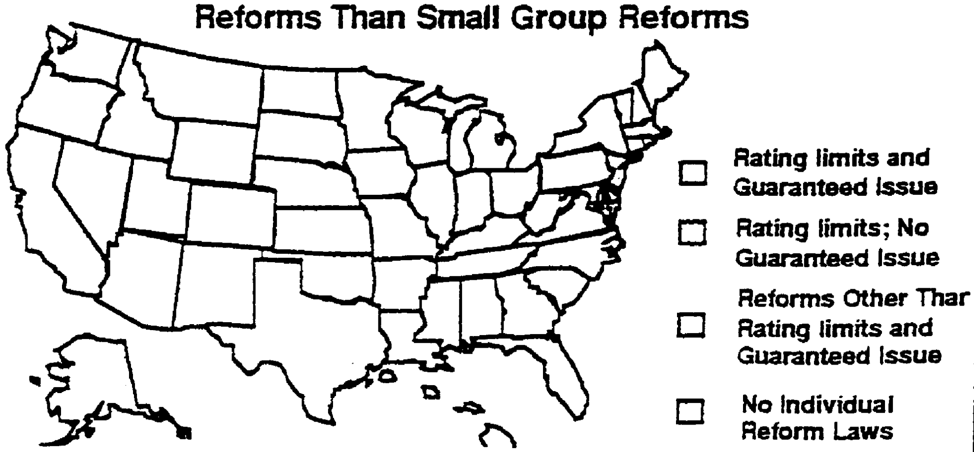
Presentation Outline

- Overview/Status of Past Health Insurance Reforms
- *Guaranteed Issue In Virginia's Individual Market*
- Federal Reform
- Conclusions and Policy Options

Guaranteed Issue in Virginia's Individual Market

10

Fewer States Have Implemented Individual Reforms Than Small Group Reforms



Source: BC/BS Nat'l Association, 1995; KMPG Peat Marwick, 1996

Overview/Status of Past Health Insurance Reforms

11

Virginia's Individual Insurance Market Reforms

- ☐ Reduced waiting periods for pre-existing conditions from 24 to 12 Mos.
- ☐ Required carriers to provide credit for waiting periods served in previous coverage

1995

- ☐ Enacted guaranteed renewability for <u>all</u> products; JCHC study of additional reforms

1996

Guaranteed Issue in Virginia's Individual Market

12

Should Guaranteed Issue/Modified Community Rating Be Implemented in The Individual Market Now?

- Several carriers believe it is too early; impact in primary small group market should be assessed more fully
- Carriers and some insurance agents believe Essential & Standard Plans need to be updated
- Bureau of Insurance and NAIC recommend similar reforms in the small group and individual markets

Guaranteed Issue in Virginia's Individual Market

13

Should Rating Bands (+ - 20%) Be Broadened?

- "Wider" bands require less subsidy of healthier persons, but result in higher rates for the less healthy
- Some insurers commented that the bands should be broadened because risks in the individual market are more volatile
  - recommend +- 30 or 40%
- Bureau of Insurance and NAIC recommend similar rating structures in small group and individual markets
  - reduces "gaming" of system
- Possible approach would be to phase in rating bands (e.g., 30 or 40% in year 1 and narrowed to +-20% in year 2)

Health Insurance Reform in Virginia (HB 1026)

14

Overall Summary of Public Comments

- Insurance industry comments generally stated that further reforms would be premature, and recommended not taking action on guaranteed issue and modified community rating in the individual market until impact of federal reforms could be assessed
- Other commenters generally supported moving forward with reforms in the individual market and recommended these reforms be extended to out-of-state group trusts and associations

Assessing The Impact of Recent Health Care Reforms on Virginia's Small Business Community

15

Presentation Outline

- ☐ Overview/Status of Past Health Insurance Reforms
- ☐ Guaranteed Issue In Virginia's Individual Market
- ☐ *Federal Reform*
- ☐ Conclusions and Policy Options

Federal Reform

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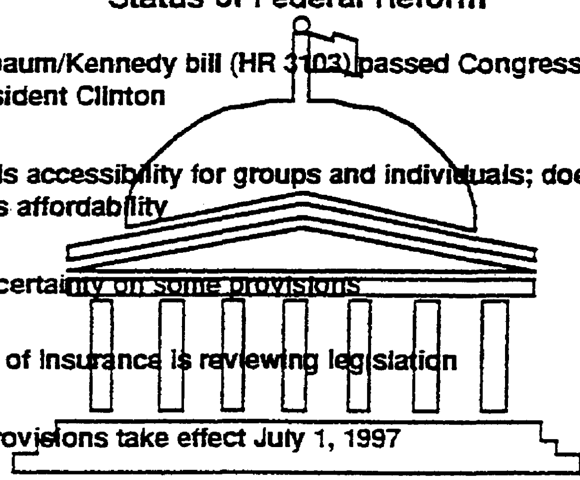
Status of Federal Reform

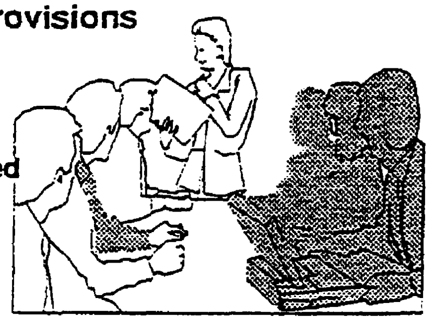


- Kassebaum/Kennedy bill (HR 3103) passed Congress and signed by President Clinton
- Expands accessibility for groups and individuals; does not address affordability
- Still uncertainty on some provisions
- Bureau of Insurance is reviewing legislation
- Most provisions take effect July 1, 1997

Federal Reform

17

Small Group Provisions

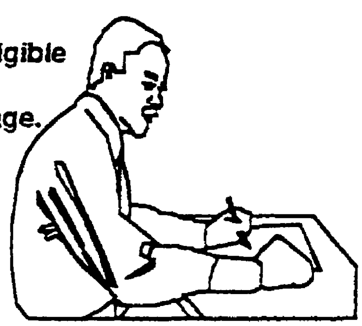


- Key provisions:
  - prohibits group health plans (insured and self-insured) from excluding persons or charging premium differential based on health status
  - provides guaranteed issue in small group market (2-50); guaranteed renewability for large and small groups
    - limits exclusions for preexisting conditions to 12 months
    - requires credit for waiting periods served in previous coverage

Federal Reform

Individual Provisions

- Key provisions:
  - guaranteed issue and renewability, regardless of health status, for persons who: (i) have had 18 or more months of continuous group coverage; (ii) are ineligible for other group coverage; and (iii) have accepted and exhausted COBRA coverage.
  - no preexisting condition exclusions for these persons
- Legislation provides flexibility for states in implementing individual reforms



Federal Reform

19

Other Provisions

- Medical Savings Accounts (MSAs):
  - allows for businesses (<50 employees) and self-insured
  - national limit of 750,000 policies over 4-year demonstration period
  - minimum/maximum deductibles of $1,500/$2,250 for individuals; $3,000/$4,500 for families; and total out-of-pocket exposure limit of $3,000 and $5,500 respectively
- Tax Deductibility of Premiums for Self-Employed:
  - increases deductibility from current rate of 25% to 40% in 1997; to 45% in 1998-2002; and, then, increasing annually to 80% in 2006 and thereafter

Assessing The Impact of Recent Health Care Reforms on Virginia's Small Business Community

20

Presentation Outline

- ☐ Overview/Status of Past Health Insurance Reforms
- ☐ Guaranteed Issue in Virginia's Individual Market
- ☐ Federal Reform
- ☐ *Conclusions and Policy Options*

Conclusions and Policy Options

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Conclusions

- Virginia's small group market reforms are similar to other states; guaranteed issue requirement is not as extensive as some states

- Guaranteed issue of Essential & Standard plans is relatively new; however, impact thus far has been minimal

- A process for reviewing and updating the Essential & Standard plans is needed

- Guaranteed issue and modified community rating of Essential & Standard plans should expand access to coverage in individual market

Conclusions and Policy Options

22

Conclusions (cont'd)

- While Federal health insurance reforms will have a positive impact, access and affordability issues still remain; the full impact on states is not known

- Joint Commission may want to request the Commissioner of Insurance to present an overview of the legislation as soon as there is a clearer understanding of its impact on Virginia and the actions that the Commonwealth must take to be in compliance

Conclusions and Policy Options

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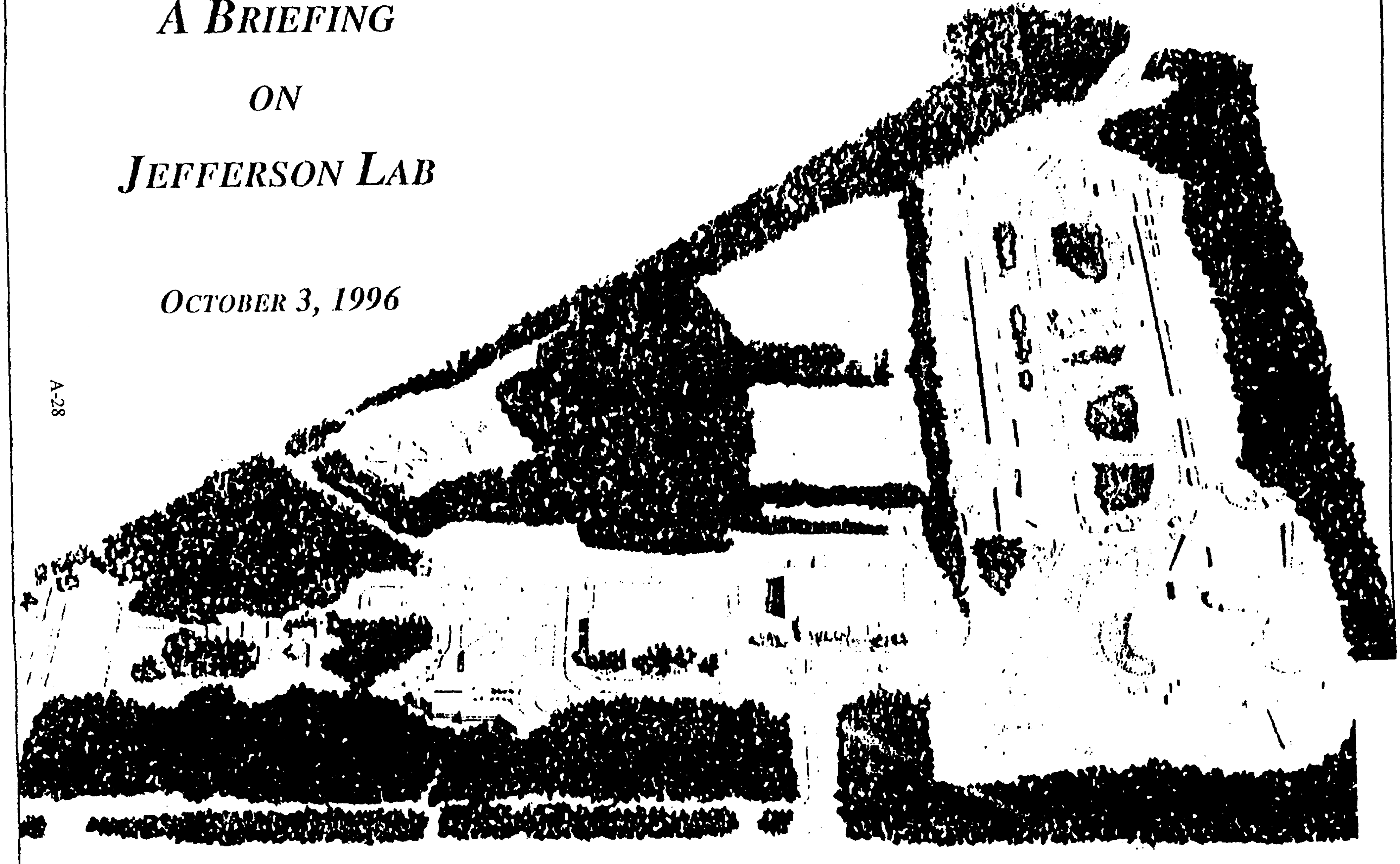
Policy Options For Implementing Guaranteed Issue and Modified Community Rating in the Individual Market

- Option I: Status Quo (further assess impact of small group reforms and federal legislation)
- Option II: Introduce legislation to implement guaranteed issue and modified community rating of the Essential & Standard plans similar to that in the primary small group market
  - key issues:
    - (i) should a delayed effective date be included to allow time to review and update the Essential & Standard plans; and
    - (ii) should reforms be extended to out-of-state group trusts and associations

Jefferson Lab

A Briefing on Jefferson Lab

October 3, 1996



THOMAS JEFFERSON NATIONAL ACCELERATOR FACILITY
12000 JEFFERSON AVENUE
NEWPORT NEWS, VIRGINIA 23606

Thomas Jefferson National Accelerator Facility's mission is to provide forefront scientific facilities, opportunities, and leadership essential for discovering the fundamental nature of nuclear matter, to partner with industry to apply its advanced technology, and to serve the nation and its communities through education and public outreach, all with uncompromising excellence in environment, health and safety.

INTRODUCTION

The Thomas Jefferson National Accelerator Facility, or Jefferson Lab, is a basic research laboratory built by the Federal Government to probe the nucleus of the atom. The centerpiece of the laboratory is a unique electron accelerator using a new technology that will lead not only to scientific advancement but to new industrial applications. As a unique world-class scientific facility, Jefferson Lab has enormous assets to bring to its partnerships. Cutting-edge scientific knowledge, technological advancements and an international user community make Jefferson Lab a pioneer in nuclear and particle physics. Jefferson Lab is more than a government sponsored research laboratory for scientists worldwide, it is a dynamic partner in industrial applications and a valuable resource for education at all levels.

Jefferson Lab has been and continues to be an active contributor and beneficiary of partnerships which create a synergy among participants.

PRIMARY MISSION: ADVANCE SCIENTIFIC UNDERSTANDING

A Center of Scientific Excellence

- As an international center of scientific excellence Jefferson Lab serves a user community of over 1,000 scientists from around the world.
- At Jefferson Lab, physicists working at the frontier of nuclear physics deepen their understanding of quarks, constituent particles of the nucleus, which make up more than 99 percent of everything around us.
- Acting as a hub for 41 research universities, Jefferson Lab brings together the capabilities of university researchers, including eleven in the Commonwealth with joint appointments at six Virginia universities. There are also nine Virginia Governor's Distinguished Professor and Distinguished Scientists positions which are funded by support from the state.

JEFFERSON LAB: A STUDY IN FEDERAL, STATE AND LOCAL PARTNERSHIPS

- Jefferson Lab represents a $600 million dollar investment by the federal government, the Commonwealth of Virginia, the City of Newport News, and several foreign contributors, for the U.S. nuclear physics research community.

- The Commonwealth of Virginia actively pursued siting of the facility and worked with DOE and the Southeast Universities Research Association (SURA) to attract Jefferson Lab to this region. The Newport News site was selected because of the commitment and support of the Peninsula's government and business, and excellent local infrastructure: colleges, airports, and a technically trained workforce.

  - Newport News provided support in acquiring land for the Jefferson Lab project, an existing building and construction of the Residence Facility.

  - Jefferson Lab brings 500 staff, a $600M construction project, and ~ $70 M per year in operating funds to the Peninsula

JEFFERSON LAB EDUCATIONAL PARTNERSHIPS

- Jefferson Lab has sought partnership opportunities with Historically Black Colleges and Universities (HBCUs) and Minority Education Institutions (MEIs). Currently, Jefferson Lab has Memoranda of Understanding with four such institutions, with one more in negotiation.

- Jefferson Lab and the State Council on Higher Education for Virginia have established the Virginia Physics Consortium, designed to create a cohesive world class physics program in the Commonwealth.

- Jefferson Lab is a resource for K-12 education, creating new and innovative programs to enhance math and science education in the region, reaching over 10,000 students and 1,500 teachers.

DERIVATIVE MISSION: APPLY JEFFERSON LAB TECHNOLOGY

The Demonstration Free Electron Laser: An Industry-Led Partnership

- Jefferson Lab has developed technologies which have industrial applications. The Industrial Advisory Board (IAB) identified Jefferson Lab's superconducting radiofrequency technology as the focus for their development efforts. The IAB saw the potential for SRF accelerator technology as a driver for high average power, tunable, free electron lasers (FELs) for manufacturing applications.

- To utilize this technology, the Laser Processing Consortium (LPC) was formed, driven by industrial partners, Jefferson Lab and several universities, to pursue a demonstration laser at Jefferson Lab for materials processing.

- The proposed laser would provide ultraviolet (UV) and infrared (IR) light for process development and testing at higher power, lower per unit costs and more tunability (choices of wavelengths) than currently available.

- The laser would be sited at Jefferson Lab to take advantage of available expertise and site assets. Industry has committed $19M toward realization of this project. The State has committed funds ($5M) for the FEL user facility, and the City of Newport News is building office and laboratory space for industry and university partners as well as incubator space. The Consortium has requested $27M in federal funds to match the $29M contributed from non-federal partners.

EXPLORING POTENTIAL OF INFRARED LASERS FOR SHIPBOARD DEFENSE

- Navy's Office of Directed Energy Weapons wants to explore the potential of infrared free electron lasers for shipboard defense and has provided $8.1M for a 1 KW infrared demonstration laser.
- Current Defense Authorizing bills in the Senate and House include $9M for an upgrade to this demonstration laser.
- Technology developments necessary for defense and industrial lasers are synergistic.

THE NEXT STEP: PARTNERS FOR ECONOMIC DEVELOPMENT

- With information and experience gained from the demonstration laser, the next phase is an industrial scale prototype (10kW - 100kW) for materials processing. The time scale for this project is in the 5-7 year time frame, and the cost for such a laser facility will be borne primarily by industry.
- Recognizing the potential for significant economic impact, the building that the City of Newport News is currently constructing will be the flagship of an applied research park built around Jefferson Lab.

Virginia Small Business Financing Authority

Child Day Care
Financing Program

Child Day Care Financing Program

The Virginia Small Business Financing Authority began offering the Child Day Care Financing Program to "Child Day Center Providers", through a cooperative agreement with the Virginia Council on Child Day Care and Early Childhood Programs, in September 1993. Micro-loans to Family Home Providers were introduced in December/January 1995.

Child Day Care Financing Program

VSBFA provides direct loans to child care providers to finance quality enhancements for their child care programs or to meet or maintain child care standards, including health, safety, and fire codes.

Child Day Care Financing Program

- Child Day Center Loans
- Family Home Provider Micro-loans

Child Day Care Financing Program

Child Day Center Loans

- Low-interest, fixed rate installment loans (interest rate set at 3% below prime)
- Loan amounts from $1,500 - $25,000
- Repayment terms up to 10 years
- $100 nonrefundable application fee

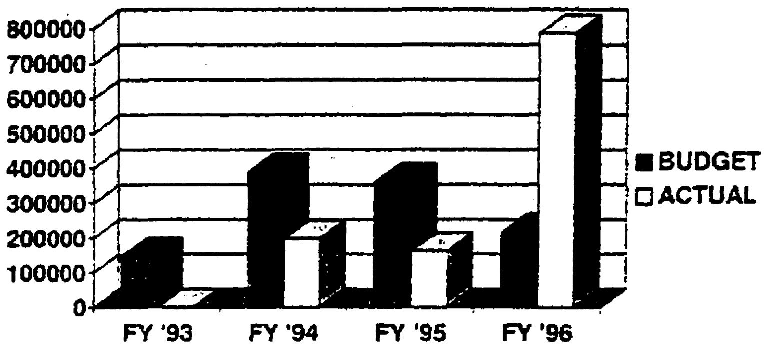
Child Day Care Financing Program

Family Home Provider Loans

- Low-interest, fixed rate installment loans (interest rate set at 3% below prime)
- Loan amounts up to $1,500
- Repayment terms up to 3 years
- $15.00 nonrefundable application fee

Child Day Care Financing Program

Loan History



Child Day Care Financing Program

LOANS FUNDED HISTORY

	Funds Allocated	Funds Spent	No. of Loans	No. of Spaces	No. of Jobs
FY '93	$ 149,000	-	-	-	-
FY '94	$ 389,000	$ 198,000	15	532	52
FY '95	$ 360,000	$ 163,500	13	537	26
FY '96	$ 218,300	$ 785,000	72	1032	51
TOTAL:	$ 1,116,300	$ 1,146,500	100	2101	129

*FY '96 Funds Spent includes Loan Repayment Account

Child Day Care Financing Program

Program History

- FY' 93 - Development Phase.
  - VSBFA created loan documentation and marketing materials which were then approved by the Office of the Attorney General.
- FY '94 - Program Launched.
  - During the first operational year of the program, the Council simultaneously offered a grant program and awarded $350.000 in grants to the same target market.

Child Day Care Financing Program

Program History

- FY '95 - Program Reviewed.
  - The Council asked that VSBFA review the loan program and make recommendations to modify the program to broaden eligibility and target additional sectors of the market.
    - Submitted proposal to Council recommending modifications and expansion of the loan program.

Child Day Care Financing Program

Program History

- FY '96 - Program Modified.
  - December 1995 - Council initiates program modifications:
    - In direct response to the impending welfare reform initiatives, the program was opened to "religious-exempt" centers and a pilot family home provider program was launched.
    - Loan limits and terms were modified.
- **June 1996:**
  - **VSBFA was notified by the Council that funding for the program has been discontinued**

Child Day Care Financing Program

Economic Impact

- **Over $1 million in financing approved**
- **Over 2,100 new child care spaces and 110 new employment positions created**
- **More than 5,000 children served in over 90 centers and family day homes**

Child Care & Development Black Grant

Briefing for: Child Day Care Subcommittee, Small Business Commission

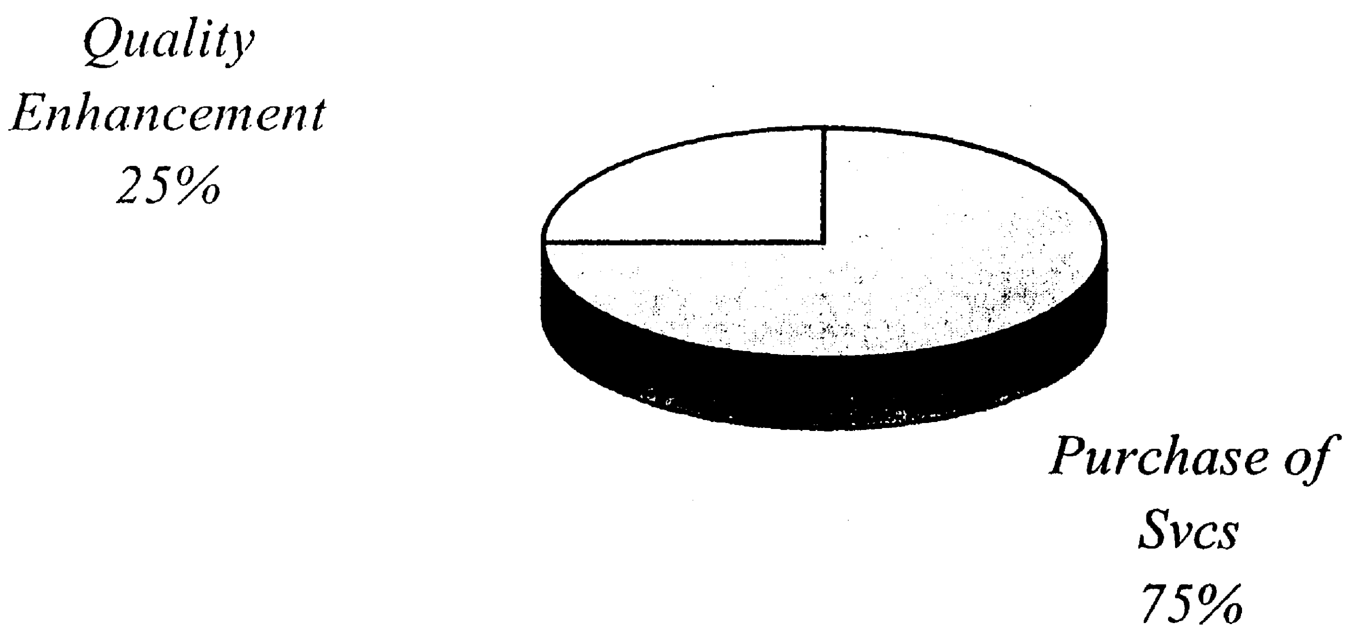
Clarence H. Carter
Commissioner, Department of Social Services

Purpose:

*Increase the **availability**, **affordability**, & **quality** of child care.*

Clarence H. Carter
Commissioner, Department of Social Services

Child Care & Development Block Grant



Clarence H. Carter
Commissioner, Department of Social Services

State Plan

(1994-1996)

1. Direct purchase of services:

- ❑Department of Social Services
- ❑Department of Mental Health, Mental Retardation, & Substance Abuse Services
- ❑Department of Housing & Community Development

Clarence H. Carter
Commissioner, Department of Social Services

State Plan
(1994-1996)

2. *Quality Enhancement:*

- ❑Head Start Expansion into Unserved areas
- ❑Before & After School Programs
- ❑Bright Stars
- ❑Resource & Referral
- ❑Loan Program
- ❑License Hotline

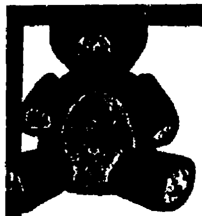
Clarence H. Carter
Commissioner, Department of Social Services

State Plan
(1996-1998)

1. *Direct purchase of services:*

- ❑Department of Social Services
- ❑Department of Mental Health, Mental Retardation, & Substance Abuse Services
- ❑Department of Housing & Community Development

Clarence H. Carter
Commissioner, Department of Social Services

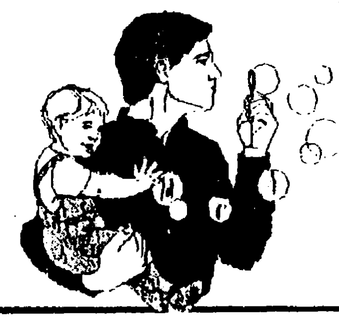


State Plan

(1996-1998)

2. *Quality Enhancement:*

- ❑Virginia Head Start Parent to Work Program
- ❑Scholarship to Child Care Providers
- ❑Training & Technical Assistance
- ❑Resource & Referral



Clarence H. Carter
Commissioner, Department of Social Services

<u>Conclusion</u>:

✓Consolidation of Child Care Policy

✓Commitment to providing **Affordable**, **Quality** Child Care

Clarence H. Carter
Commissioner, Department of Social Services

COMMONWEALTH OF VIRGINIA

JANET D. HOWELL
32ND SENATORIAL DISTRICT
FAIRFAX COUNTY, NORTHERN PART;
ARLINGTON COUNTY, PART OF WESTERN
11338 WOODBROOK LANE
RESTON, VIRGINIA 22094

COMMITTEE ASSIGNMENTS:
AGRICULTURE, CONSERVATION AND NATURAL RESOURCES
COURTS OF JUSTICE
LOCAL GOVERNMENT
REHABILITATION AND SOCIAL SERVICES

SENATE

August 6, 1996

Robert C. Metcalf
Secretary of Health and Human Resources
Ninth Street Office Building
202 North Ninth Street, Room 622
Richmond, VA 23219

Clarence H. Carter
Commissioner, Department of
Social Services
730 E. Broad Street
Richmond, VA 23219-1849

Robert T. Skunda
Secretary of Commerce and Trade
Ninth Street Office Building, Room 723
202 North Ninth Street
Richmond, VA 23219

Re: Child Day Care Loan Program; 1996-1998 federal block grant

Gentlemen:

I am writing to you on behalf of the Virginia Small Business Commission and its Child Day Care Financing Subcommittee which I chair. This special subcommittee met on August 5 and adopted a resolution urging you to take any and all steps necessary to amend the 1996-1998 federal block grant plan in order to secure and ensure funding for the Child Day Care Financing Program.

This special subcommittee was established at a recent Small Business Commission meeting when Commission members learned that the Child Day Care Financing Program will not be funded under Virginia's 1996-1998 federal Child Care and Development Block Grant plan. Administered by the Virginia Small Business Financing Authority (VSBFA), the day care financing program provides direct loans to child care providers. These loans finance quality enhancements for child care programs; they also help providers meet or maintain child care standards, including health, safety and fire codes.

The subcommittee received testimony from VSBFA representatives that since the program's inception in 1994, over $1 million in financing (in loan amounts ranging from $1,500 to $25,000) has been approved for both day care centers and family home providers. This has resulted in over 2,100 new child care spaces and over 100 new employment positions.

The subcommittee was also pleased to receive Commissioner Carter's testimony concerning the $17 million 1996-1998 federal block grant plan to be overseen by the Department of Social Services. The subcommittee fully understands that this block grant plan was conceived by the former Council on Child Day Care and Early Childhood Programs (eliminated by action of the 1996 Session), and that it has fallen to the Department to administer it. Nevertheless, it is this subcommittee's hope that the Department as well as the Administration will actively support an amendment to the 1996-1998 block grant plan, funding the Child Day Care Financing Program at 1994-1996 levels or higher.

The Virginia Small Business Commission is very concerned about the future of this program. Many Virginia small businesses employ individuals who without day care for their children would be unable to work and thus support their families. This program has significantly contributed to the quantity and quality of child care spaces in the Commonwealth, thereby benefiting the entire business community, as well as individual workers. Therefore, on behalf of the subcommittee and the Commission, I urge you to take immediate action on behalf of Virginia's working families in support of this program.

Thank you for your consideration. I look forward to hearing from you.

Sincerely,

S/

Janet D. Howell

CC: The Honorable Stanley C. Walker, Chairman, Virginia Small Business Commission;Chairman, Commission on Early Childhood and Child Day Care Programs
Members, Virginia Small Business Commission

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TER ROW BUILDING
AST BROAD STREET
MOND, VIRGINIA 23219-1849

882-1944

HEARING IMPAIRED
TDD:
828-1120

COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

Clarence H. Carter
Commissioner

September 30, 1996

The Honorable Janet D. Howell, Chairman
Child Day Care Financing Subcommittee
of the Small Business Commission
11338 Woodbrook Lane
Reston, Virginia 22094

Dear Senator Howell:

As a follow-up to the Child Day Care Financing Subcommittee and the Commission on Early Childhood and Child Day Care Programs meetings, in which the Child Day Care Financing Program was discussed, we would like to respond concerning the funding of this program.

You are aware that the Child Day Care Financing Program was not included in the 1996-1998 State Plan for the Child Care and Development Block Grant (CCDBG), which has been approved by the federal government. However, we understand that several child care facilities have made requests for loans under the Child Day Care Financing Program which have been approved and sufficient funds are not available to deliver on the approvals. It is our understanding that approximately $175,000 is needed to cover these outstanding loans. Out of the existing child care budget of the Department of Social Services, we are able to make available funds in this amount for the Small Business Financing Authority to take care of the approved loan requests.

With regard to funding the loan program in the future, the manner in which federal child care monies are delivered to the state has changed dramatically under the new national welfare reform legislation. Three funding streams have been consolidated into the Child Care Development Fund, and the plan for how states will disburse this new configuration of dollars must be provided for the federal government by July of 1997. We are planning to form a workgroup which will include all of the child care stakeholders so that together, we can determine how best to spend the money. In this workgroup, those who advocate for the Child Day Care Financing Program will have the opportunity to voice their position along with many others who have an interest in child care. Because the funds are limited, we will need to prioritize the various and competing interests.

If you have any questions or need clarification, please do not hesitate to contact me at (804) 692-1901. Thank you.

Sincerely,

Clarence H. Carter

Clarence H. Carter
Commissioner

c: The Honorable Robert C. Metcalf, Secretary of Health and Human Resources
The Honorable Robert T. Skunda, Secretary of Commerce and Trade
The Honorable Stanley C. Walker, Chairman, Virginia Small Business Commission; Chairman, Commission on Early Childhood and Child Day Care Programs

COMMONWEALTH OF VIRGINIA

JANET D. HOWELL
32ND SENATORIAL DISTRICT
FAIRFAX COUNTY, NORTHERN PART,
ARLINGTON COUNTY, PART OF WESTERN
11338 WOODBROOK LANE
RESTON, VIRGINIA 22094

COMMITTEE ASSIGNMENTS:
AGRICULTURE, CONSERVATION AND NATURAL RESOURCES
COURTS OF JUSTICE
LOCAL GOVERNMENT
REHABILITATION AND SOCIAL SERVICES

SENATE

October 24, 1996

The Honorable Clarence H. Carter,
Commissioner
Department of Social Services
730 East Broad Street
Richmond, Virginia 23219-1849

Re: Child Day Care Financing Program; your letter of September 30, 1996.

Dear Commissioner Carter:

Thank you for your recent letter summarizing the Administration's response to the Virginia Small Business Commission's request that funding be restored to the Child Day Care Financing Program within the State Plan for Child Care and Development Block Grant. As I understand it, in the short term approximately $175,000 from your Department's budget will be used to fund loans under the Program for which applications had been approved but for which sufficient funding was not available. I urge you to complete the loans' funding as soon as possible. As I understand it, however, there are no plans to seek Program funding restoration in the block grant's State Plan. Instead, as your letter indicates, a work group is being formed to determine how best to spend federal dollars in the new Child Care Development Fund, a consolidation of three current federal funding streams.

The Virginia Small Business Commission met on October 3, and I reported on the developments summarized above. Commission members voted to advise the Administration of its interest in participating in the work group, and further directed me to notify you by letter of that action. Consequently, I am sending you this correspondence to carry out that directive, and also to express, once again, the Commission's sincere interest in supporting the Day Care Financing Program and related programs that are so essential to small businesses throughout the Commonwealth and the citizens employed by them.

Please let me know when the work group will be forming and how the Commission can best participate in its activities. I look forward to hearing from you and thank you for your consideration.

Very truly yours,

Janet D. Howell

Janet D. Howell

cc: The Honorable Stanley C. Walker, Chairman, Virginia Small Business Commission;
Chairman, Commission on Early Childhood and Child Day Care Programs
Members, Virginia Small Business Commission

HOUSE JOINT RESOLUTION NO. 34

Directing the Small Business Commission to study capital access and the financing, of agricultural enterprises.

Agreed to by the House of Delegates, February 23, 1996
Agreed to by the Senate, February 21, 1996

WHEREAS, the fundamental challenge faced by agriculture, aquaculture, and agribusiness is the inability to secure sufficient financing for new or expanding operations; and

WHEREAS, there are currently a number of state economic development financial assistance programs available, including the Private Activity Tax Exempt Bond Program, the Virginia Small Business Financing Authority Industrial Development Bond Program, the Virginia Small Business Financing Authority Umbrella Bond Program, the Virginia Economic Development Revolving Loan Fund, the Loan Guaranty Program, and the Export Financing Assistance Program; and

WHEREAS, many of the state bond programs have historically been used for those economic development projects that provide both a high level of capital investments and jobs; and

WHEREAS, the lending criteria and capital limits of most of these programs favor manufacturing and industrial businesses by requiring performance-based incentives that match the specific needs of these types of businesses, and thus restrict their applicability to agricultural production ventures; and

WHEREAS, agricultural production enterprises are typically very capital-intensive, often requiring an investment of nearly a million dollars for facilities and equipment, while only directly employing a small number of workers; and

WHEREAS, experience has shown that private financial institutions are reluctant to lend money to agricultural enterprises except at a high interest rate; and

WHEREAS, government cannot replace the private sector as the primary source of financing for agricultural enterprises; and

WHEREAS, the State of Michigan has developed a successful capital access program which brings together government, private financial institutions and businesses seeking venture capital, with loan decisions remaining in the hands of the banks; and

WHEREAS, Virginia lacks a strategy for attracting privately managed investment and working capital to our rural agricultural communities; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Small Business Commission be directed to study capital access and the financing of agricultural enterprises. The Commission shall examine the following: (i) new initiatives and existing state programs which may increase the accessibility to public and private capital; (ii) programs implemented in other states, such as Michigan, aimed at increasing the access to capital; and (iii) the appropriate role of the state in providing the agricultural and aquacultural communities greater access to capital.

The Commission shall complete its work in time to submit its findings and recommendations to the Governor and the 1997 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Issues in Access to Capital and Credit in Rural Communities

A very preliminary assessment of the situation in September 1996. Prepared for the Agribusiness Subcommittee, Small Business Commission, meeting in Richmond, September 10, 1996

by

Zana Kruja
Research Assistant
Agricultural and Applied Economics

and

Wayne D. Purcell
Professor of Agricultural and Applied Economics
Coordinator, Rural Economic Analysis Program
College of Agriculture and Life Sciences
Virginia Tech

Points for Consideration

Money is available, but

- not always reaching small business
- business plan often missing or not adequate
- owner investment/equity always required
- large, regional banks avoid small loans (fixed costs per loan an issue)
- small banks often deal in "character loans"
- lenders refer to Small Business Development Center (SBDC) or Service Corps of Retired Executives (SCORE) for assistance to borrower
- small banks use Small Business Association loan guarantee less or not at all
- rejection rate as high as 30% for large banks, lower (near 10%) at some smaller banks
- start-up capital very difficult to get
- hard to find investors for venture capital programs

Micro-loan funds are emerging, but

- very small loans (<$25,000)
- some participants just provide loan guarantees
- most are non-profit funds
- few efforts to advertise them
- high rates and to loan requests banks turn down
- usually, for no-collateral loans
- may be restricted to minorities
- very limited funds

Needs that seem to persist

- consolidation is eliminating the small local bank and its interest in, and knowledge of, local business activity

- cost, paperwork a barrier to SBA loan guarantees, and SBA approval may be slow

- operating capital very difficult, even more difficult than investment capital

- many loans require significant owner investment or owner equity

- effective use of SBA programs not present (none of Virginia's SBA certified and/or preferred lenders is on the list of top 10 lenders to small businesses during 1995)

- still need effective business plans

- need effective and complete marketing plans

- need research projections and analysis to determine whether access to credit in rural communities is a serious impediment to economic development and to identify the nature and magnitude of the barriers (The Rural Economic Analysis Program is now conducting such research.)

Possible role(s) for the state

- loan guarantees

- assistance in loan requests (beyond what SBDC's can do, such as marketing projections, marketing plans, cash flow analysis, etc.)

- may need a capital access program

  - for venture capital
  - for operating capital
  - for strictly start-up capital
  - for expansion/growth capital

Display 1
Preliminary Findings on Case Studies, Anecdotal Evidence

Case	Description
A	Where: Giles County Business: Body shop Had worked before for an auto dealer. Now wanted to start his own business (body shop). Needed financing to buy the building. Two loan applications. Did not succeed. Reason: too much debt, no personal investment, not enough cash flow. Result: now still renting the building.
B	Where: Giles County Business: service station Owners: Father and two brothers Money needed for: - Buying an adjacent property to keep a convenient store - fixing a leak in the ground There was a loan fund that would help but they changed their mind. Reason: - their other business (hardware) store lost money. - they lived in a rural area, the loan fund was somewhere in North Virginia, so they did not have the right connections to know and to be sure of who they were giving the loan. They still need the money.
C	Where: New River Valley Business: existing restaurant Money needed for: restoring a building he had inherited from his in-laws. His in-laws had a motel+restaurant which had burned, and had gone out of business. What had remained was the shell of the building. He could not find financing and did not pursue the idea. Reason: Bank did not think the motel & restaurant would be profitable.
D	Where: Floyd Business: start-up. Wanted to produce emergency lighting fixtures. Could not start. Reason: no existing cash flow.
E	Where: New River Valley Business: Invention (metal parts of the machinery used in textile industry) Amount: $1,000,000. This was considered too much. No funding. Reason: this is not a bankable deal, it is too risky.
F	Where: came from California, with experience in furniture production. Business: start-up. Children furniture. Why pick this area: near furniture market in High Point, North Carolina Amount: $1.5 M

	Could not get the money. Reason: – - this was considered too much for a start-up - the person was new in the area
G	Where: New River Valley Business: Retail sale. (books, etc.) Thought would get some investors' money. Could not. The bank did not give the loan when the investors declined.
H	Wanted to establish a trucking business. It was a decent project but he had insufficient collateral, because to start the business he needed money for: capital investment [buy the truck(s)] non-capital investment Capital investment is the only possible collateral, but this is only a fraction of the expenses. There are little chances to get operating capital for starters.
I	Restaurants. Many do like this business, but it is very risky, and the failure rate is high. There is a bank in the Roanoke & New river Valley area (large bank, more than regional) whose policy is "No Financing for restaurants start-ups".
J	The owner of a gas station wanted to get financing to buy a convenience store (expansion money). However, they were loosing money with the gas station. Result: no expansion money.
K	Business on some kind of installation for homes (could not give details - proprietary information). They were very qualified and were doing very good. They had lots of orders and thought about increasing stock and adding personnel. Loan application was rejected. Reason: They had written a loan on themselves, and the balance showed high percentage of liabilities. Small businesses frequently get incompetent advice. An accountant had advised them to write the loan to themselves in order to save taxes on the interest paid. Legally they were right, but it was a bad advice in the long-term. There are also many lawyers that do not advise them to incorporate. Solution: they used family money, issued stock, and bought their own debt.
L	Where: Richland SW Virginia. Client who had a good business plan. He went to the bank to get financing. The loan officer told him: "We do not do SBA loans". Banks had hard time dealing with the government because of the paper work and the collection of the guaranteed funds in case of failure.
M	Young lady, wanted to establish a riding stable. Turned down from the bank. Reason: - did not know how to approach the bank. Local banks are very linear in their organization form. If you do not go to the right place you get turned down.

	- not experienced - the bank does character lending (she was new in the area) Got help from the SBDC. Back to the bank: got financing to buy the horses. Now she is in business.
N	Had received federal benefits from disability for many years. Wanted to start a retail ice-cream store. There was a big need in town. As far as the business plan and the market projection, everything was fine. Could not get financing. Reason: no credit history. Result: could not start the business.
O	New restaurant. With the assistance of the SBDC started the projection of the future cash flow. Finding out the expenses was easy. Revenues were the problem: just to break-even they needed to "bring people out of the hospitals" to eat in their restaurant. In this case, the borrower was lucky to be turned down by the bank. Otherwise the failure would have hurt much more.
P	Where: Roanoke area Farmer loan application: A farmer made a loan application to buy 60 cows. He had three loans with this bank. For each of these loans he was 8-10 times late in making the loan payment. Result: turned down.
Q	Where: New River Valley Business: retail bakery + restaurant Situation: change in operation : drop the restaurant and add wholesale bakery 1 - Loan application to local small bank. Even though he was an old client, the bank did not take the risk of financing the change. They asked for a SBA loan guarantee. This involved a lot of paper work. It was not easy to apply. The process took too long (about 3 months). Result: guarantee not granted. Reason: too much of a change, no proven track record, difficult period for the SBA since there was a high percentage of loan default during that time (1992). The process: All black and white numbers. No consideration of the personal characteristics, vision of the borrower, etc. SBA does not use personal contacts with borrowers. 2 - The business owner tried with an alternative source of funding (long term loan from relatives). The effort succeeded. Now the bank loans are more easy to get. They have established a good relationship, and have a proven track record.

Display 2
Experience of a small local bank

1995 Small Business Loans	Total	Approved	Approved %
Number of loan applications	84	76	90.5%
Amount of loan applications	$1,613,630.00	$1,463,630	90.7%

The reasons for rejecting 8 of them are one or more of the following:
- too many loans given to the same person
- length of employment
- tax collection action
- bankruptcy in the past
- insufficient income in the projected cash flow
- delinquent credit
- checking account overdrafts
- collateral
- past due problems
- excessive obligations

The approval rate is quite high. A larger, nearly regional, bank estimated their "turn down rate to be 20-30 percent.

Display 3
Top Ten Lenders to Small Businesses in Virginia

In "1995 Small Business Profile" compiled by the SBA's Office of Advocacy are listed the Virginia's top ten lenders to small businesses as follows:

1. Virginia Heartland Bank
2. First Bankers and Trust Corporation
3. Citizens Bankers and Trust Corporation
4. Bank of Essex
5. Chesapeake Bank
6. Virginia Community Bank
7. Powell Valley National Bank
8. Resource Bank
9. Benchmark Community Bank
10. Peoples Bank of Montross

Display 4
SBA's Certified Lender And Preferred Lender Program

The most active and expert lenders qualify for the SBA's streamlined lending programs. Under these programs, lenders are delegated partial or full authority to approve loans, which results in faster service from SBA. Certified lenders are those who have been heavily involved in regular SBA loan-guaranty processing and have met certain other criteria. They receive a partial delegation of authority and are given a three-day turnaround by the SBA on their applications (they may also use regular SBA loan processing). Certified lenders account for nearly a third of all SBA business loan guaranties. Preferred lenders are chosen from among the SBA's best lenders and enjoy full delegation of lending authority in exchange for a lower rate of guaranty. This lending authority must be renewed at least every two years, and the lender's portfolio is examined by the SBA periodically. Preferred loans account for more than 10 percent of SBA loans.

Virginia SBA Certified and Preferred Lenders as of June 1996

Fairfax	The George Mason Bank
Mclean	Suburban Bank of Virginia
Richmond	Central Fidelity Bank
Richmond	*Commonwealth Bank
Richmond	Crestar
Richmond	The Money Store Investment Corporation
Richmond	NationsBank of Virginia, NA
Richmond	*Signet Bank/VA
Vienna	Business Bank
Vienna	*Patriot National Bank
Virginia Beach	*Commerce Bank
New York, NY	The Business Loan Center
Washington, D.C.	Allied Lending Corporation

* Indicates Preferred Lender Program Participant

FEDERAL RESERVE BANK OF RICHMOND

Quarterly Survey of Agricultural Credit Conditions

July 31, 1996

Overview

Some measures of District agricultural credit conditions strengthened while others weakened in the second quarter, according to results of the Richmond Fed's survey of agricultural banks. The demand for farm loans increased slightly and, compared to a year earlier, the expected volume of farm lending during the third quarter rose. However, increased collateral requirements, lower repayment rates, and higher loan renewals and extensions indicated somewhat softer agricultural credit conditions. Furthermore, District banks indicated that they were less willing to make new farm loans. Interest rates were mixed. The average value of District farmland continued to move higher and banks expected additional increases during the third quarter.

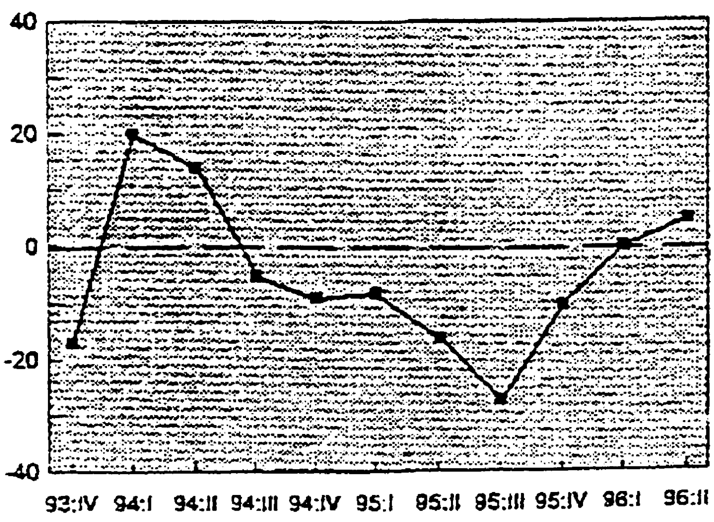
The Demand for Farm Loans

Banks reported that the demand for farm loans continued to increase during the second quarter. The demand index for non-real estate farm loans rose to +5, the third consecutive increase.

For the third quarter, respondents expected farm loan volume to fall short of year-ago levels. Compared to the third quarter of 1995, feeder cattle loans posted an index of -32, reflecting the continued effects of weak cattle prices and higher feed costs on producers' decisions to expand herds and make capital improvements. The indexes for the expected volume of dairy and crop storage loans were -18 and -4, respectively. All three indexes changed little from the first quarter.

In contrast, the indexes of expected machinery loan and operating loan volumes for the third quarter rose. The index value for the anticipated volume of farm machinery loans was 5. For expected operating loan volume, the index was 28.

DEMAND FOR NON-REAL ESTATE FARM LOANS



Note: The diffusion index equals the percentage of banks reporting greater demand minus the percentage reporting lesser demand.

Interest Rates

Average interest rates on operating and long-term farm real estate loans were unchanged, feeder cattle loan rates rose, and intermediate-term rates fell from the previous quarter. The average interest rate on operating loans held at 9.8 percent and the average rate on long-term farm real estate loans held at 9.5 percent. During the second quarter, interest rates on feeder cattle loans increased 10 basis points to 9.9 percent. Intermediate-term loans rates averaged 9.7 percent, or 20 basis points below the first quarter average.

Compared to the second quarter of 1995, average interest rates on all categories of farm loans were lower. The largest decline was in the average rate on intermediate-term loans, which fell by 70 basis points. Operating loan rates averaged 60 basis points lower. For both feeder cattle and long-term real estate loans, the average rates during the second quarter of 1996 were 50 basis points lower than a year earlier.

Availability of Credit

In the second quarter, 71 percent of responding banks indicated they were actively seeking new farm loans. This was substantially lower than the 90 percent that were seeking new loans in the previous survey or the 83 percent of a year earlier. For the eighth straight survey, no bank reported refusing or reducing farm loans due to a shortage of funds. Funds availability was generally described as at or above usual.

Creditworthiness

The quality of agricultural credits in the Fifth District weakened slightly during the second quarter. The repayment-rate index for agricultural loans slipped three points to -12, equal to that reported in the second quarter of 1995. The loan renewals and extensions index moved to 18, up from 15 in the previous quarter, and from 4 a year earlier. Respondents attributed the increase in renewals and extensions to lower cattle prices, higher feed costs, and lower cotton yields; factors that adversely affected the financial positions of some customers. Also, several contacts noted that smaller farms' financial positions were being "squeezed" by increased competition from larger, more efficient operations. Responding banks reported higher collateral requirements for agricultural loans. The diffusion index for these requirements stood at 17, up seven points from the previous quarter and nine points from the second quarter of 1995.

Farmland Values

The market value of "good" farmland averaged $1339 per acre in the second quarter, up 2.8 percent from the first quarter and 8.7 percent from a year earlier. Banks indicated that the upward trend in farmland prices was expected to hold over the next three months.

For further information, contact: Bruce D. Cox • Research Associate • Federal Reserve Bank of Richmond • Research Dept.-22nd Floor • P.O. Box 27622 • Richmond, VA 23261 • phone (804) 697-8267 • fax (804) 697-8255

FEDERAL RESERVE BANK OF RICHMOND

Quarterly Survey of Agricultural Credit Conditions

2nd Quarter 1996

Farm Non-real Estate Lending

	Percentages reporting: Greater than Usual	About as Usual	Less than Usual	Diffusion Indexes (1) 96:II	96:I	95:II
Demand for Loans	17	71	12	5	0	-16
Fund Availability	26	71	3	23	19	4
Loan Repayment Rate	5	71	17	-12	-10	-12
Renewals or Extensions	21	76	3	18	15	4
Collateral Requirements	17	83	0	17	10	8

Farm Loan Volume Expected: next 3 months

	Higher	Same	Lower	96:II	96:I	95:II
Real Estate Loans	9	75	16	-7	-17	-26
Non-Real Estate Loans:						
Total	16	73	11	5	-10	4
Feeder Cattle	3	63	35	-32	-31	-20
Dairy	6	71	24	-18	-20	-21
Crop Storage	14	68	18	-4	-6	-14
Operating	35	58	7	28	14	4
Farm Machinery	22	60	17	5	0	8

Indicators of Credit Availability

		Change from (2): 96:I	95:II
Average Loan-to-Deposit Ratio	72.8%	0.4 ppt	-2.9 ppt

	Percentages reporting: Higher than desired	About right	Lower than desired	Diffusion Indexes 96:II	96:I	95:II
Loan-to-Deposit Ratio Compared to Desired Level	15	40	45	-30	-47	-14

	Yes	No	Percentages reporting "Yes": 96:I	95:II
Loan Refusal or Reduction Due to Funds Shortage	0	100	0	0
Actively Seeking New Farm Loans	71	29	90	83

Farm Loan Referrals:	Greater than Usual	About as Usual	Less than Usual	None	Percentages reporting "None": 96:I	95:II
Correspondent Banks	0	9	2	89	89	86
Non-Bank Agencies	4	13	4	80	84	77

Average Interest Rates on Farm Loans

		Change from (3): 96:I	95:II
Feeder Cattle	9.90%	10 bp	-50 bp
Operating	9.80%	0 bp	-60 bp
Intermediate-term	9.70%	-20 bp	-70 bp
Long-term Real Estate	9.50%	0 bp	-50 bp

Farm Real Estate Values

		Percentage change from: 96:I	95:II
Average Farmland Value (per acre)	$1,339	2.81%	8.71%

	Percentages reporting: Up	Stable	Down	Diffusion Indexes 96:II	96:I	95:II
Expected Farmland Value: next 3 months	12	86	2	10	5	4

(1) Diffusion indexes are calculated as the percentage of banks reporting increase minus the percentage of banks reporting decrease.
(2) Change in loan-to-deposit ratio from previous periods measured in percentage points (ppt).
(3) Change in average interest rates from previous periods measured in basis points (bp). Basis points are defined as 1/100 of a percentage point.
Percentages may not add to 100 due to rounding. Results are based on responses from 58 of 76 banks surveyed.

For additional information, contact:

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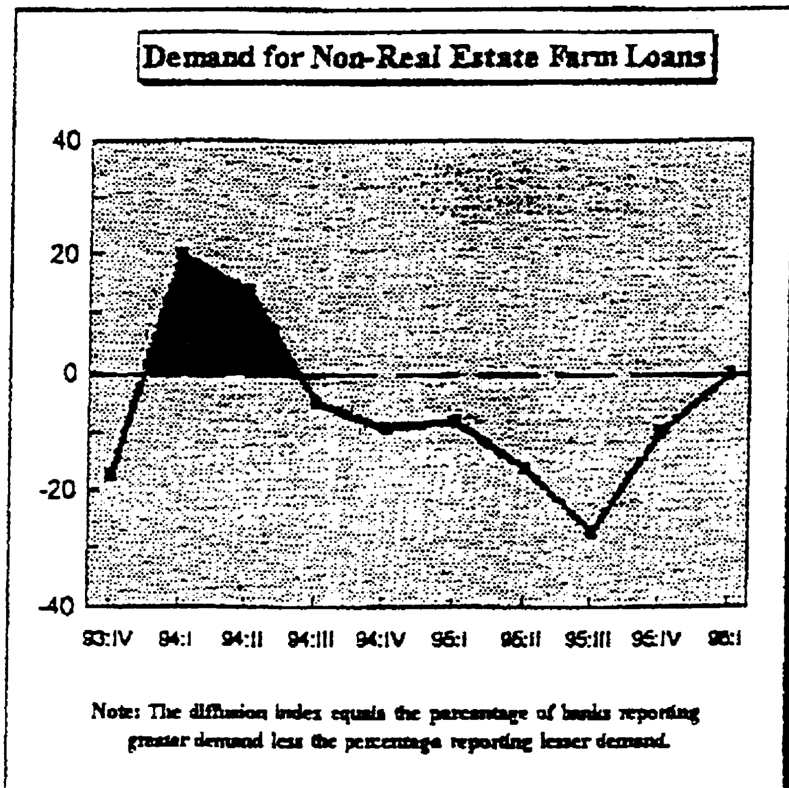
FEDERAL RESERVE BANK OF RICHMOND
Quarterly Survey of Agricultural Credit Conditions
April 30, 1996

Overview

Agricultural credit conditions in the Fifth District improved somewhat during the first three months of 1996 according to results from the first quarter survey of agricultural banks. The demand for farm loans picked up modestly during the first quarter. However, banks expected that loan volume during the second quarter would fall below that of a year earlier. District banks indicated a greater willingness to make new farm loans during the first quarter and greater funds availability than a year ago. Respondents reported that interest rates were lower on most categories of farm loans and that repayment rates on existing loans had improved. Farmland values were somewhat higher while land prices were expected to remain stable in the second quarter.

The Demand for Farm Loans

Banks reported a modest increase in the demand for farm loans. A diffusion index for the demand for non-real estate farm loans in the first quarter of 1996 equaled zero, continuing the upward trend of the previous quarter and marking the first move out of negative territory in six quarters. The index for loan demand stood at -10 in the fourth quarter of last year and at -8 a year ago.



For most categories of agricultural loans, volume during the second quarter was expected to fall below that in the same period last year. These expectations were most notable for feeder cattle, dairy, and farm real estate loans. For these categories no banks reported expectations of increased volume. However, 31 percent reported expectations of fewer feeder cattle loans during the second quarter; 20 percent reported expectations of fewer dairy loans; and 17 percent reported expectations of fewer farm real estate loans.

Only for operating and farm machinery loans were the diffusion indexes for volume expectations non-negative. The percentage of banks expecting a higher volume of operating loans exceeded that expecting a lower volume by 15 percentage points. For farm machinery loans, the percentage expecting higher demand equaled the percentage expecting lower demand.

FEDERAL RESERVE BANK OF RICHMOND

Quarterly Survey of Agricultural Credit Conditions

1st Quarter 1996

Farm Non-real Estate Lending

	Percentages reporting: Greater than Usual	About as Usual	Less than Usual	Diffusion Indexes (1): 96:I	95:IV	95:I
Demand for Loans	14	71	14	0	-10	-8
Fund Availability	19	81	0	19	24	-4
Loan Repayment Rate	5	81	14	-9	-24	-8
Renewals or Extensions	20	75	5	15	24	-8
Collateral Requirements	10	90	0	10	10	12

Farm Loan Volume Expected: next 3 months

	Higher	Same	Lower	96:I	95:IV	95:I
Real Estate Loans	0	83	17	-17	-21	-17
Non-Real Estate Loans:						
Total	10	70	20	-10	-5	0
Feeder Cattle	0	69	31	-31	-35	-20
Dairy	0	80	20	-20	-25	-4
Crop Storage	6	83	11	-5	-5	-5
Operating	29	57	14	15	0	4
Farm Machinery	10	81	10	0	-5	13

Indicators of Credit Availability

		Change from (2): 95:IV	95:I
Average Loan-to-Deposit Ratio	72.4%	1.1 ppt	- 2.5 ppt

	Percentages reporting: Higher than desired	About right	Lower than desired	Diffusion Indexes: 96:I	95:IV	95:I
Loan-to-Deposit Ratio Compared to Desired Level	5	42	53	-48	-47	-29

	Yes	No	Percentages reporting "Yes": 95:IV	95:I
Loan Refusal or Reduction Due to Funds Shortage	0	100	0	0
Actively Seeking New Farm Loans	90	10	86	76

Farm Loan Referrals:	Greater than Usual	About as Usual	Less than Usual	None	Percentages reporting "None": 95:IV	95:I
Correspondent Banks	0	11	0	89	95	83
Non-Bank Agencies	0	16	0	84	90	70

Average Interest Rates on Farm Loans

		Change from (3): 95:IV	95:I
Feeder Cattle	9.80%	- 30 bp	-90 bp
Operating	9.80%	- 30 bp	- 70 bp
Intermediate-term	9.90%	- 20 bp	- 60 bp
Long-term Real Estate	9.50%	0 bp	- 70 bp

Farm Real Estate Values

		Percentage change from: 95:IV	95:I
Average Farmland Value (per acre)	$1,303	5.08%	2.85%

	Percentages reporting: Up	Stable	Down	Diffusion Indexes: 96:I	95:IV	95:I
Expected Farmland Value: next 3 months	5	95	0	5	0	-4

(1) Diffusion indexes are calculated as the percentage of banks reporting increase minus the percentage of banks reporting decrease.
(2) Change in loan-to-deposit ratio from previous periods measured in percentage points (ppt).
(3) Change in average interest rates from previous periods measured in basis points (bp). Basis points are defined as 1/100 of a percentage point.
Percentages may not add to 100 due to rounding.
For additional information, contact:
Bruce D. Cox, Research Associate; Federal Reserve Bank of Richmond; Research Dept. - 22; P.O. Box 27622; Richmond, VA 23261; phone (804) 697-8267; fax (804) 697-8255

Interest Rates

Interest rates on short- and intermediate-term agricultural loans were lower while rates on farm real estate loans were unchanged. The average rates on intermediate-term loans fell to 9.9 percent compared to 10.1 percent in the fourth quarter of 1995 and 10.5 percent a year ago. Interest rates on short-term feeder cattle and farm operating loans averaged 9.8 percent compared to 10.1 percent during the previous quarter. During the first quarter of 1995, these rates averaged 10.7 percent and 10.5 percent, respectively. Interest rates on long-term farm real estate loans held at 9.5 percent from the previous quarter. For the same period last year, rates on these real estate loans averaged 9.8 percent.

Availability of Credit

In the latest survey, nine of every ten banks indicated they were actively seeking new farm loans, a slightly higher proportion than were seeking new farm loans in the previous survey. A year ago, nearly one of every four banks reported that they were not actively seeking to make such loans. Banks continued to report that no farm loans have been refused or reduced due to a shortage of funds. All banks described funds availability as at or above usual during the first quarter of 1996. This was unchanged from the previous quarter. A year ago, 16 percent of the respondents indicated a lower-than-normal availability of funds.

Creditworthiness

The quality of agricultural credit in the District appears to have improved somewhat during the first quarter of 1996. While the reports on repayment rates were almost identical to those of a year earlier, the percentage of banks reporting lower-than-normal rates of repayment fell by 15 percentage points from the previous quarter. Although loan renewals or extensions remained above year-ago levels, fewer banks reported greater-than-normal renewals or extensions than in the fourth quarter survey. Collateral requirements were unchanged from the fourth quarter of 1995, although they were below year ago levels.

Farmland Values

The market value of "good" farmland averaged $1303 per acre in the first quarter, up 5.1 percent from the fourth quarter of 1995 and 2.8 percent from a year earlier. Banks generally expected stable farmland prices during the second quarter. Only five percent expected land prices to rise while no banks expected land prices to fall.

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Virginia
Capital
Access
Program

Pilot Project
Virginia Small Business Financing Authority

Purpose of VCAP

- Support the growth and success of businesses statewide
- Make funds available for business loans that are not available through other programs

VCAP Provides a Reserve Fund for a Portfolio of Loans

- Enrollment fees of 3-7% are contributed to the reserve fund by the bank and the borrower
- VSBFA adds matching amount to bank's reserve
- Reserve covers up to 100% of losses
- The VSBFA owns the funds in the bank's earmarked reserve but these funds are dedicated to cover losses on loans made under the program

Plan Concept

- It is an "enrollment" process vs. an "approval" process; no need for VSBFA to review or approve the credit
- The reserve fund enables a bank to be more aggressive in making loans
- Competition will drive conventional credits to conventional financing

VCAP Process

- Business applies to bank
- Bank makes credit decision
- Enrollment form submitted to VSBFA and payment made to the reserve account

Bank Flexibility

- All types of loans (working capital, fixed assets, lines of credit, term loans)
- Rate (fixed or variable), fees, term, collateral (if any), amortization
- All or part of the loan may be enrolled (eg. to cover a collateral gap)
- Changes in the loan do not have to be reported (except where the enrolled loan increases)
- Lines of credit are enrolled for the maximum commitment

High Leverage of Economic Development Resources

- Experience nationwide is 21:1
- For every $1 invested in VCAP, we anticipate $21 worth of benefits (i.e. $100,000 investment enables $2.1 million in loans to be amde in the community that would not have been made without the program)
- Easy to administer

Bank Benefits

- Expands the customer base
- Increases commercial loan volume
- Mitigates risk
- Easy to use
- No delay in response to customer

Capital Access Programs

	Year	Public Sector Investment	Number of Loans	Loans Enrolled
Arkansas	1993	$5.0 million	105	$ 3.7 million
California	1994	$10.0 million	1116	$158.0 million
Connecticut	1993	$10.0 million	164	$ 13.1 million
Indiana	1993	$5.0 million	629	$ 28.1 million
Massachusetts	1993	$5.0 million	965	$ 58.0 million
Michigan	1986	$14 million	4350	$227.3 million
Minnesota	1992	$5.0 million	103	$ 5.0 million
New Hampshire	1993	$5.0 million	691	$ 27.0 million
North Carolina	1994	$1.75 million	47	$ 2.7 million
Oklahoma	1992	$3.0 million	354	$ 9.2 million
Oregon	1991	$1.5 million	880	$ 28.5 million
West Virginia	1991	$3.0 million	120	$ 5.6 million

VCAP Reserve Fund Benefits - Example

	New Loans Enrolled @ $50,000 ea.	$ Loans Outstandimg	# Loans Outstanding	Loss Reserve	Loss Reserve %.
Year 1	10 loans	$500,000	10	$40,000	8.0%
Year 2	10 loans	$730,000	15	$60,000	8.2%
Year 3	10 loans	$710,000	15	$80,000	11.3%
Year 4	15 loans	$940,000	20	$120,000	12.8%
Year 5	15 loans	$1,035,000	23	$150,000	14.5%

Assumptions:
- 1/2 of loans made mature in 1 yr., 1/2 of loans made mature in 2 years.
- Bank/Borrower/State match = 8%
- 4% loss rate (note losses fully covered by reserve).

ENROLLMENT SUMMARY - VCAP PILOT PROGRAM
CENTRAL FIDELITY NATIONAL BANK

DATE	LOAN AMT.	ENROLLED AMT.	CFNB DEPOSIT	VSBFA DEPOSIT	JOBS	CITY OR COUNTY	LOAN PURPOSE	TERM
2/15/96	$ 66,580.23	$ 66,580.23	$ 2,663.21	$ 2,663.21	0	FREDERICKSBURG	PERMANENT W/C	4YRS
2/27/96	$ 100,000.00	$ 100,000.00	$ 5,000.00	$ 5,000.00	0	RICHMOND	EQUIPMENT	5YRS
2/27/96	$ 150,000.00	$ 150,000.00	$ 7,500.00	$ 7,500.00	0	RICHMOND	RECEIVABLE	LINE
3/5/96	$ 103,000.00	$ 103,000.00	$ 3,090.00	$ 3,090.00	2	HENRICO	PERMANENT W/C	5YRS
3/15/96	$ 50,000.00	$ 50,000.00	$ 2,000.00	$ 2,000.00	0	NORFOLK	RENOVATE BLDG.	5YRS
5/21/96	$ 52,000.00	$ 52,000.00	$ 2,000.00	$ 2,000.00	7	PETERSBURG	PERMANENT W/C	5YRS
5/31/96	$ 60,650.00	$ 20,000.00	$ 600.00	$ 600.00	0	SHENANDOAH	BUS.ACQUISITION	5YRS
7/1/96	$ 155,000.00	$ 155,000.00	$ 4,650.00	$ 4,650.00	2	RICHMOND	EQUIPMENT&W/C	1YR
7/1/96	$ 30,000.00	$ 30,000.00	$ 900.00	$ 900.00	2	RICHMOND	WORKING CAP.	LINE
7/8/96	$ 200,000.00	$ 118,300.00	$ 3,549.00	$ 3,549.00	5	CHESTERFIELD	BUS. ACQUISITIO	5YRS
7/12/96	$ 120,000.00	$ 50,000.00	$ 1,500.00	$ 1,500.00	2	CHESAPEAKE	EQUIPMENT	5YRS
7/26/96	$ 337,500.00	$ 100,000.00	$ 3,000.00	$ 3,000.00	4	CHESAPEAKE	BUILDING	20YRS
7/30/96	100,000.00	100,000.00	3,000.00	3,000.00	0	FAIRFAX	WORKING CAP.	LINE
8/20/96	$ 150,000.00	$ 150,000.00	$ 4,500.00	$ 4,500.00	1	NEWPORT NEWS	COMM.MTG.	20YRS
TOTALS	$ 1,674,730.23	$ 1,244,880.23	$ 43,952.21	$ 43,952.21	25			

INTEREST THRU 7-31-96 $ 912.42

ACCOUNT BALANCE	$ 88,816.84

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Draft of Rural Economic Analysis Program policy paper.

Capital Issues in Rural Virginia: A Policy Perspective

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INTRODUCTION

Access to capital was identified as one of the major hurdles to rural development in focus group meetings conducted by the Rural Economic Analysis Program (REAP) with the Tobacco Communities Project in 1995. Specifically, it was said to be a problem for tobacco farmers seeking to adjust and diversify given the uncertainty surrounding tobacco. The goal of the present study is to determine if there are, in fact, significant difficulties in obtaining financing by farmers and other rural businesses in Virginia. If difficulties exist, are they related to lack of capital, to a lack of knowledge of available resources, to a lack of preparation by people seeking financing, to a mismatch between the type of financing requests and available financing, or to some combination of these? A broad and encompassing parallel objective was to determine whether there is a need for a state presence in ensuring access to capital.

Information was gathered by a survey designed to identify any problems in loan availability and why these problems are present. Both borrowers and lenders were included in the information gathering phase of the project.

The results presented in this paper are preliminary findings based on initial returns only, prior to any extensive follow-up to ensure broader survey responses. While no conclusive statements can be made about the difficulties of new small businesses or existing small businesses wishing to expand, these preliminary results provide insights into potential needs by rural residents for credit assistance and provide an information base to be used in considering the proper role for the state. This report deals only with farmer and small business surveys, not the creditors survey. Thus, it is focused toward issues facing borrowers and potential borrowers.

THE SURVEY

Five counties were chosen for survey purposes: Brunswick, Halifax, Grayson, Mecklenburg, and Patrick. The selection process for counties was designed to reach a wide representation of different levels of development, different rates of economic growth, and different sectoral mixes in the local economies. The sample counties chosen are a good representation of the economic specialization of Virginia's non-metropolitan counties. The sample included counties defined as persistent poverty or commuting,[1] and counties adjacent or not adjacent to Statistical Metropolitan Areas (SMAs). A total of 2,000 farm and non-farm businesses located in the selected counties were included in the random sample.

A mail survey was sent to a sample of farm and non-farm businesses. Three sources of data were used to obtain mailing addresses: Virginia Agricultural Statistics Department database of farm businesses, Virginia Employment Commission (VEC) database of businesses registered for unemployment insurance purposes, and the business phone directory.

The survey instrument developed for small business operators and farmers asked for information from two general areas:

1. General information about the company, and
2. Experience in financing the business.

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[1] As defined by ERS in: "1989 ERS County and Typology Codes"

PRELIMINARY FINDINGS, FARMERS AND SMALL BUSINESSES

The results of the survey to farmers and small business owners were divided into two general categories: agriculture and non-agriculture. Of those in agriculture, which included producers as well as suppliers and processors, 79 percent were farmers. The non-farm category was comprised primarily of professionals (33 percent), retail operations (19 percent), and business services (11 percent). Only 2 percent of the respondents had sales over $5 million. Sales under $100,000 accounted for 42 percent of the respondents and of those 15 percent had sales under $10,000. While 15 percent is not a large number, the important relationship is that 84 percent of those were farmers. Most of the firms were local—within 1 to 15 miles of the mailing address, and most had only 1 outlet for sales. Only 3 percent reported having non-local locations, more than 50 miles distant. The majority of the business are in the on-going or stable stage, with only 5 percent in the development or start-up stages of operation. Nearly three-quarters of the respondents reported less than 10 similar firms in the locality. This finding suggests a knowledge of a wide variety of industries on the part of credit analysts.

These preliminary findings suggest that rural entrepreneurs tend to be conservative in their use of debt: 40 percent reported no debt; 34 percent reported debt to asset ratios of less than 30 percent; and 10 percent reported debt to asset ratios of greater than 70 percent. The size of loans is also small, most of them less than $50,000 and for less than 10 years. Of the 10 percent reporting long term loans (greater than 10 years), 60 percent were for less than $100,000.

Loan denials

Since one of the objectives of this study is to determine the difficulties in obtaining capital, there were a series of questions about being denied credit. The most common explanations given to the potential borrower was insufficient cash flow, insufficient collateral, or both. Fifty-nine percent of those reporting loan denials are in the on-going stage in the business and 82 percent are in the non-farm sector. Corporations account for 55 percent of the non-farm businesses. Of those denied loans, 65 percent were corporations. Only 12 percent of the respondents classified their businesses as too new to have a history of sales. Less than one fourth of the respondents denied loans had decreasing sales. Most of the financing is done by local banks.

Opinions on financing

Several questions were asked to determine the perception that people have of the availability of credit in the rural communities. The results are summarized in Table 1.

Table 1. Summary of opinion questions

Question	Agree	Disagree	Uncertain	Not applicable
	---------------	Percent	---------------	
If you really need credit, it is available	65	14	12	8
	Agree	Disagree	Uncertain	
Will you need additional financing in the next two years?	37	57	6	
If you need additional financing, will local financing sources be able to meet your needs?	7	82	5	
How familiar are you with each of these programs?	Familiar	Unfamiliar	No response	
Private Activity Tax Exempt Bond Program	4	82	14	
Virginia Small Business Financing Authority Industrial Bond Development Program	5	71	24	
Virginia Small Business Financing Authority Umbrella Bond Program	4	79	19	
Virginia Economic Development Revolving Loan Fund	4	76	20	
Loan Guaranty Program	4	78	18	
Export Financing Assistance Program	5	86	9	
	Yes	No	No response	
Have you ever obtained financing from state or federal sources?	10	86	4	
Is it easier to obtain credit from when the lender uses state or federal economic development financial assistance programs?	11	39	50	
Do you think the state should become active in ensuring adequate access to capital for businesses in Virginia?	49	36	15	

Technical Assistance

Lending institutions require various financial information from potential borrowers. Included in the required information is the need to make projections for cash flows and to predict the market for the business. Businesses can also be asked to provide a business plan. Understanding the terms and conditions of loan documents can require legal assistance. The responses to questions in the survey showed that Cooperative Extension was the primary source of much of the technical assistance. The most difficult area to obtain assistance was projecting the future market for the business. Legal assistance was also viewed as difficult to obtain.

POLICY ISSUES

Government intervention in capital markets can be justified under two main scenarios. First, when the market is functioning normally, but society is not satisfied with the outcomes. Second, when there are imperfect market conditions which demand correction. The discussion that follows relates to the second type of government intervention.

Should the state intervene to improve the access to capital in Virginia's rural areas? While there are no widespread anomalies in Virginia's rural capital markets, some specific markets and types of firms are experiencing difficulties.

Market Inadequacy

The responses to questions about loan denial indicate that there is a market inadequacy since what appear to be successful firms are sometimes denied debt financing. Not only do start-up businesses experience difficulties when they need financing, but so do well-established firms which need to finance their expansion. This general feeling suggests that there is a void in the local financial markets. It appears there is a mismatch between the type of financing requests and the available financing. Correcting this inconsistency and helping to ensure a "match" between needs and offerings could be considered as correcting a market inadequacy.

Lack of preparation of financial information by people seeking financing does not appear to be the major reason for loan denials. Instead, collateral requirements and the size and variability of cash flow are the most often cited reasons for loan denial. Should the state intervene to help alleviate the restrictions posed by cash flow and collateral requirements? Since it is normal for a start-up business to lack the necessary collateral, it may be important to help these businesses. If state intervention is accompanied by rigorous analysis of the business plan and loan application, it may be possible to provide credit to these small businesses without interfering with the normal functioning of the financial market. Adopting the role of loan guarantor or helping to develop a capital access program to provide better access to start-up and expansion capital would, apparently, boost economic activity in Virginia's rural areas.

Another sign of market inadequacy is that firms involved in unusual economic activities face major difficulties in the loan market. This scenario suggests that the experience of local banks in a certain business sector determines in large part the chances of loan approval. When the local bank is not familiar with the type of business activity for which the loan request was made, loans appear to be difficult to obtain.

There are major differences in the way financing needs are met in different sectors of the rural economies. Non-farm businesses seem to be less preferred than farm businesses, because Farm Credit and other institutions are dedicated to the farming sector. However, rural development and the economic well-being of the rural sector depend heavily on the success of non-farm businesses as well. This apparently preferential treatment is especially important now that many tobacco farmers may seek to diversify into non-farm businesses or find employment with such businesses that emerge in their home communities.

Sources of new financing

The majority of new financing is provided locally. For the time period covered by the study, if one assumes that having new financing provided locally is an indication of properly functioning markets, the local financial markets are functioning well. But there is a potential problem for the future. The trend in the banking industry is consolidation. What will happen to small businesses which currently raise most of the debt capital through the local banks as the local banks merge with regional or national banks? Will the larger banks be interested in and able to evaluate the loan applications of these often small businesses where the capital needs are often less than $50,000? If they are not willing or able to meet the needs due to lack of personnel or orientation, what will these small rural businesses do?

Financial Market Adequacy

The opinions on the adequacy of the financial market are not conclusive. The results of this section of the survey will be analyzed carefully since they do not include the opinion of firms which are out of business as the result of the lack of financing.

What is important to emphasize is that the majority of respondents who are not satisfied with the current market conditions expect to need financing during the next year. These respondents represent the firms with non-traditional business activities and form the majority of the respondents who do not believe the local market will meet their needs. This situation suggests there is a mismatch between the type of financing requests and the available financing. What can be done to correct the problem? Local banks could be encouraged to cooperate with non-local banks having expertise in these specialized types of businesses, or a state agency or board could offer help in analyzing the specialized types of loan applications. Clearly, the area needs attention if diversification and robust economic activity and development in rural Virginia is an objective.

Terms and Conditions of Financing

The opinions on terms and conditions of finance differ widely and offer no conclusive results in this preliminary assessment. However, the opinions seem to support the idea that there is no large, overall market inadequacy, but there might be some issues that need improvement. A market is not complete and effective if information on credit and access to credit is not available. That some of the respondents who borrowed money in the last year did not offer an opinion on the interest rates and other loan conditions they agreed to might suggest a lack of information and a weak understanding of costs and conditions surrounding the loans. Their lack of opinion suggests that they do not know to what they can compare the terms of their loans from the local banks. That local banks are the only source of information on financing sources for the majority of the respondents supports this conclusion. If banks are not interested in providing customers with information about alternative financing programs, those potential borrowers may never learn about them, and their credit needs may not be met.

The overwhelming majority of respondents do not know about the state programs in place. If these programs are set up to help the small businesses, they need to be advertised so that interested entrepreneurs would be able to take advantage of what they offer. Making this information more readily available could by accomplished through the creation of new information centers or by adding the information function to some existing governmental institutions. A less expensive way to provide this kind of information is to motivate banks to use these programs. In this way, it will be possible to use the existing expertise of banks to provide broader and more complete information on financing sources. Motivating banks to use more of these programs involves not only setting up attractive programs, but also making sure that what was promised to the bank will be provided in a timely manner and with minimal paper work.

The majority of the respondents who knew the most about the various state programs were those having little or no debt. Why are they interested in information about these financing programs? A logical conclusion is that they sought financing but for some reason they were not able to obtain it. Could this be another evidence of a mismatch between the type of credit sought and the type of credit available? Another conclusion that might be drawn from this finding is that what appears to be conservatism toward credit might rather be lack of matching credit type with credit needs. To the extent a "mismatch" persists, economic growth in rural areas of Virginia is being constricted.

The role of the state

Should the state be involved in helping to assure access to capital for rural businesses? The responses to this idea suggest that there is some reluctance in using state/federal programs. The majority of respondents who do not think that it is easier to obtain financing through these programs have never used them. Were they misinformed? Would information help increase the use of these programs? On the other hand, most of the respondents who did use these programs are not in favor of further state involvement. The important policy issue is whether these programs are properly designed. If the end user does not perceive a difference between the use of state-assisted specialized financing programs and direct bank financing, the reason for the programs has to be questioned.

It is important to mention that state involvement in credit access is a very sensitive issue. While there are many who think that there is a need for state involvement, there are many others who almost become aggressive in their responses, expressing their opposition to the idea that the state can do anything to improve the functioning of rural capital markets. Most of them accompany the answer with a statement against the tax system. They believe that the only role that the state has is to reduce taxes, so that the small businesses could be more motivated to produce, expand, and create more jobs. They are expressly against the establishment of new governmental institutions which will "only drain the taxpayers money." Clearly, any enhanced role of the state will need to be carefully conceived and may need to meet needs of enhancing rural economic development by improving access to needed capital at no cost to the taxpayer. These needs might be met by loan guarantor roles or by creating a capital access program to be administered by existing state agencies or both.

The sources of technical assistance used by small businesses appear to be very different. Virginia Cooperative Extension appears to be the best source of technical assistance. The Small Business Development Centers do not appear to be a widely used source. The main help needed by the small businesses is in developing market projections. From a telephone interview with some Small Business Development Centers, it was learned that they do not have enough personnel or expertise to provide this service to small businesses. Since market projections are crucial to enhance the probability of loan application approval, it is important to consider ways to provide this service, and this may well be a proper role for the state.

RECOMMENDATIONS

Based on this preliminary assessment, any role of the State in ensuring effective credit and capital markets in rural communities should be focused in providing:

- Information on financing sources available to rural businesses, for both start-up and expansion;
- An information clearing house to help match financing needs with available capital;
- Technical assistance in providing businesses with market and cash flow estimates or forecasts;
- Encouragement for banks to use the existing state and federal programs by eliminating or reducing the paperwork and by assuring them that they will be able to collect (in a timely fashion) from the state what the programs promise to them;
- Help for banks in analyzing loan applications from less common types of businesses;
- Start-up as well as expansion capital, especially for small businesses, with creation of a capital pool for loans under $100,000, the most prevalent "need" in loan size; and
- Alternatives to the collateral-based loans since beginning and fledgling small businesses often do not have the needed collateral.

There appears to be a need for the state to get involved in facilitating rural business access to capital in Virginia, especially for the smaller businesses. In the economic environment of the year 2000 and beyond, markets will be very competitive in a global context. Diversification, expansion, and access to non-traditional types of business activities, both agricultural and non-agricultural, are apparently being constrained by lack of access to capital, especially venture capital.

VIRGINIA ACTS OF ASSEMBLY -- CHAPTER

An Act to amend the Code of Virginia by adding sections numbered 9-228.1 through 9-228.4, relating to the creation of the Virginia Small Business Growth Fund; Virginia Small Business Financing Authority.

[H 2424]

Approved

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding sections numbered 9-228.1 through 9-228.4 as follows:

§9-228.1. Creation, administration, and management of Virginia Small Business Growth Fund.

In addition to any other fund or account the Authority may create pursuant to §9-228, there shall be a permanent fund known as the Virginia Small Business Growth Fund (the "Fund"). The Fund shall be comprised of (i) sums appropriated to it by the General Assembly, (ii) all income from the investment of moneys held by the Fund, and (iii) any other sums designated for deposit to the Fund from any source, public or private. The Fund shall be administered and managed by the Authority, and all moneys in the Fund shall be used to create special reserve funds to cover potential future losses from the loan portfolios of participating banks and lending institutions as provided in §9-228.4. Any remaining balances in the Fund shall not revert to the general fund but shall be retained in order to create additional special reserve funds.

§9-228.2. Deposit of moneys.

All moneys belonging to the Fund shall be deposited to the credit of the State Treasurer and recorded on the books of the State Comptroller. Earnings from investments and interest shall be returned to the Fund.

§9-228.3. Collection of moneys due to the Fund.

The Authority, or its designated agent, is empowered to collect moneys owed to the Fund. Proceedings to recover moneys owed to the Fund may be instituted by the Authority in the name of the Fund in any appropriate court.

§9-228.4. Operation of the Fund.

A. The Fund shall be used as a special reserve fund to cover potential future losses from the loan portfolios of participating banks and lending institutions. The Authority shall (i) work with banks and lending institutions to establish a separate account for the Virginia Small Business Growth Fund in each participating bank or lending institution and (ii) deposit into such accounts, moneys from the Fund in an amount equal to the total of the sum of the bank or lending institution's and the individual borrower's deposits into such account. Such matching sum by the Authority shall not exceed seven percent of the principal amount of the loan.

B. The Authority shall determine the qualifications, terms, and conditions for the use of the Fund and the accounts thereof. In connection with applications for claims made against the Fund, the Authority is authorized to require the production of any document, instrument, certificate, legal opinion, or any other information it deems necessary or convenient. All claims made against the Fund shall be approved by the Board or an authorized committee or subcommittee thereof. All claims made against each account shall be reported to the Board or an authorized committee thereof.

VIRGINIA ACTS OF ASSEMBLY -- CHAPTER

An Act to amend and reenact § 8.01-341.1 of the Code of Virginia, relating to jury service; exemption; persons indispensable to business.

[H 1560]
Approved

Be it enacted by the General Assembly of Virginia:

1. That §8.01-341.1 of the Code of Virginia is amended and reenacted as follows:

§8.01-341.1. Who may claim exemptions from jury service.

The following may claim exemptions from serving on juries in civil and criminal cases:

1. through 3. [Repealed.]

4. Mariners actually employed in maritime service,

5. through 7. [Repealed.]

8. A person who has legal custody of and is necessarily and personally responsible for a child or children sixteen years of age or younger requiring continuous care by him during normal court hours,

9. A person who is necessarily and personally responsible for a person having a physical or mental impairment requiring continuous care by him during normal court hours,

10. Any person over seventy years of age,

11. Any person whose spouse is summoned to serve on the same jury panel.,

12. Any person who is the only person performing services for a business, commercial or agricultural enterprise and whose services are so essential to the operations of the business, commercial or agricultural enterprise that such enterprise must close or cease to function if such person is required to perform jury duty.

VIRGINIA ACTS OF ASSEMBLY -- CHAPTER

An Act to amend and reenact §§ 9-221 and 9-235 of the Code of Virginia and to amend the Code of Virginia by adding sections numbered 9-228.1 through 9-228.4, relating to the creation of the Virginia Export Loan Guarantee Fund; Virginia Small Business Financing Authority.

[H 1561]
Approved

Be it enacted by the General Assembly of Virginia:

1. That §§9-221 and 9-235 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding sections numbered 9-228.1 through 9-228.4 as follows:

§9-221. Liability of Commonwealth, political subdivisions and members of Board.

No bonds issued *or loans or loan guarantees made* by the Authority under this chapter shall constitute a debt, liability or general obligation of the Commonwealth or any political subdivision thereof (other than the Authority), or a pledge of the faith and credit of the Commonwealth or any political subdivision thereof (other than the Authority), but shall be payable solely as provided by the Authority. No member or officer of the Board nor any person executing the bonds, *loans, or loan guarantees* shall be liable personally on the bonds, *loans, or loan guarantees* by reason of the issuance thereof. Each bond issued *or loan or loan guarantee made* under this chapter shall contain on the face thereof a statement that neither the Commonwealth, nor any other political subdivision thereof, shall be obligated to pay the same or the interest thereon or other costs incident thereto except from the revenue or money pledged by the Authority and that neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to the payment of the principal of, or the interest on, such bond, *loan, or loan guarantee.*

§9-228.1. Creation, administration, and management of Virginia Export Loan Guarantee Fund.

In addition to any other fund or account the Authority may create pursuant to §9-228, there shall be a permanent fund known as the Virginia Export Loan Guarantee Fund (the "Fund"). The Fund shall be comprised of (i) sums appropriated to it by the General Assembly, (ii) receipts by the Fund from loan guarantees made against it, (iii) all income from the investment of moneys held by the Fund, and (iv) any other sums designated for deposit to the Fund from any source, public or private. The Fund shall be administered and managed by the Authority, and all moneys in the Fund shall be used to provide loan guarantees as provided in §9-228.4. Any balances remaining in the Fund shall not revert to the general fund but shall be retained in order to make additional loan guarantees.

§9-228.2. Deposit of moneys.

All moneys belonging to the Fund shall be deposited to the credit of the State Treasurer and recorded on the books of the State Comptroller. Earnings from investments and interest shall be returned to the Fund.

§9-228.3. Collection of moneys due to the Fund.

The Authority, or its designated agent, is empowered to collect moneys due to the Fund. Proceedings to recover moneys due to the Fund may be instituted by the Authority in the name of the Fund in any appropriate court.

§9-228.4. Loan guarantees made against the Fund.

A. The Fund shall be used to guarantee up to ninety percent of the principal amount of any commercial loan or line of credit made by a lender for the purpose of facilitating the sale of goods, products, or services outside of the United States by persons, firms, or corporations utilizing a Virginia air, land, or sea port to ship such goods, products, or services. Such guarantee shall not exceed one million dollars.

B. The Authority shall determine the terms and conditions of any loan guarantee made against the Fund and may allow for use of the Fund in single or multiple transactions. No loan guarantee shall exceed a term of eighteen months. The Authority shall charge an annual guarantee fee. However, the Authority may waive such fees in an economically distressed area as defined in §58.1-439. In connection with applications for loan guarantees made against the Fund, the Authority is authorized to require the production of any document, instrument, certificate, legal opinion, or other information it deems necessary or convenient.

C. All loan guarantees made against the Fund shall be approved by the Board or an authorized committee or subcommittee thereof.

§9-235. Annual report; audit.

The Authority shall, within 120 days of the close of each fiscal year, submit an annual report of its activities for the preceding *fiscal* year to the Governor *and the chairmen of the House Committee on Appropriations and the Senate Committee on Finance*. The clerk of each house of the General Assembly shall receive a copy of the report by making a request for it to the chairman of the Authority. Each report shall set forth, *for the preceding fiscal year,* a complete operating and financial statement for the Authority during the fiscal year it covers *and any loan fund or loan guarantee fund the Authority administers or manages*. The Commonwealth's Auditor of Public Accounts or his designee shall at least once in a year audit the books and accounts of the Authority *and any loan fund or loan guarantee fund the Authority administers or manages*.