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STATE SENATOR

Testimony on Assembly Bill 47
Assembly Committee on Jobs, Economy and Mining
February 5, 2014
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417 North

Thank you, Chairwoman Williams and committee members, for holding a public hearing today on Assembly Bill 47, the Small Business Credit Now Bill, which will allow companies to use tax credits for which they would be eligible in future years as equity to get the financing they need now.

As a member of the Wisconsin Competitiveness Study Group that published the "Be Bold" report and a member of the Wisconsin Economic Development Corporation board I have repeatedly heard small business leaders complain about the difficulty they have securing capital to start or expand their business. Along with a well-trained workforce, access to capital is one of the two things the business community most needs to reignite our economy and create the good paying jobs Wisconsin workers need.

Wisconsin has a number of tax credit programs that incentivize companies to relocate here, to expand and to create new jobs. However, these credits are of little value to relatively new businesses that have no tax liability because they aren't currently turning a profit. They are even less useful to businesses that can't find the investment funds they need to complete the development of a product or to bring it to market.

The Small Business Credit Now Bill allows Wisconsin to "pay it forward" by letting small companies use tax credits they could qualify for in the future as an asset that helps them get the investment capital they need today. The bill enables the state to make grants to companies based on the value of selected tax credits for which they are eligible as equity in a financing package. Lenders would need to certify that the proposed loan is for activities covered under the applicable tax credit program, and funds would be distributed directly to the lender at the time of closing.

The bill defines "small business" as companies with fewer than 25 employees or less than \$5 million in gross annual receipts. This is the kind of company economists tell us will be the major source of new jobs. It's also the kind of company that is finding it particularly challenging to find investment capital in our current economy. Because these grants are used to secure capitalization, they leverage the impact of the taxpayer's investment, and insure that an existing business lender has verified the viability of the proposed business plan. And the bill contains safeguards to insure that funds are used for qualified activities that create good jobs by helping new companies start and existing small businesses expand.

The Small Business Credit Now Bill allows Wisconsin to repurpose part of its investment in economic development in a way that helps our greatest job creators grow and thrive. I urge you to give Assembly Bill 47 your support.



TESTIMONY – AB 47
Small Business Credit Now Bill
Assembly Committee on Jobs, Economy and Mining
February 5th, 2014

THANK YOU Chair Williams and members of the committee for scheduling AB 47, the Small Business Tax Credit NOW bill for a hearing today.

Small businesses are the backbone of our economy and contribute substantially to state job creation. According to the US Census Bureau, around one half of American workers are employed by small businesses with less than 100 employees.

For us to succeed in our efforts, however, we need to recognize both the unique assets and unique challenges faced by small businesses. Many are struggling, and we're losing more small businesses every month.

The credit crunch – lack of access to capital - is one of the most significant problems facing small businesses today. In a recent independent survey, 70% of business owners reported that loans are harder to get and that access to capital is a limiting factor for their business.

As banks respond to new underwriting standards they are cutting back on lines of credit and are more conservative in their lending. That means trouble for small businesses, which rely on lines of credit and conventional financing for start-up and expansion.

I recently spoke with an independent mechanic who, despite having a 25 year relationship with his hometown bank, was unable to borrow \$15,000 for 30 days – long enough to buy a diesel engine from the manufacturer and put it in a truck.

While larger corporations have larger cash reserves and can hire finance experts to help them create sophisticated liquidity schemes to weather tough times, smaller family owned and operated businesses do not have the same “rainy day” capital on hand, and they just don't have as many options.

AB 47 would make it easier for these businesses to secure the necessary financing to stay in business.

Even if a business qualifies for credit, banks now commonly require as much as 40% equity to finance a project, a tough hurdle for already cash strapped businesses.

Here in the Legislature, we're good at creating tax credits, but tax credits only get used after the investment is made and when the firm has a profit. If you can't make the investment to begin with, then a tax credit doesn't do you any good.



AB 47 would provide businesses with fewer than 25 employees or less than \$5 million in receipts to receive the value of selected tax credits for which they are eligible as a grant to be used as equity for financing. Lenders would certify the proposed loan is for activities covered under the applicable tax credit program and funds would be distributed directly to the lender at closing.

Some of the programs include the Economic Development Tax Credit and Technology Zones Credit, both of which offer great opportunity for small businesses to capitalize on up-front project funding.

Passage of AB 47 would allow small businesses, the real job creators of Wisconsin, easier access to credit which will lead to the creation of those jobs we so badly need.

AB 47, the Small Business Credit NOW bill, will help solve one of the major bottlenecks to our state's recovery – the credit crisis for Wisconsin's small businesses - and I urge the Committee's consideration of AB 47 and swift passage to the floor of the Assembly.

Representative Fred Clark



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Letter in Support of AB47

February 5, 2014

Members of the Committee:

I am writing to express support for AB47, the "Small Business Credit Now" bill. AB47 would make it easier for Wisconsin businesses to secure the financing they need to grow and thrive.

As I'm sure you are aware, lenders around the nation and across the state continue to be understandably risk-averse following the financial crisis. Access to capital is a serious and ongoing problem for small business owners.

While tax credits have their place in economic development programs, we maintain that a balanced strategy should include different provisions for smaller businesses. That's because, in general, tax credits are helpful to businesses that have enough liquid capital to make a large initial investment in a particular project, but they are of little use to firms that can't afford to make the investment to begin with.

AB47 provides a way for businesses with fewer than 25 employees or less than \$5 million in receipts to get the financing they need up front. Rather than receiving tax credits after the investment is made and profits are realized, qualified small businesses could receive the value of selected tax credits for which they are eligible as a grant up front. This grant, in turn, could be used as equity for financing.

AB47 will allow qualified small manufacturers and other business owners to gain easier access to credit, which will in turn lead to more jobs and broad-based economic growth.

The bill will help alleviate the credit crisis for Wisconsin's small businesses. On behalf of our members, I urge its swift passage.

Kind regards,

Lori Compas
Executive Director, Wisconsin Business Alliance