Bill Number:	S0389	As amended by House Labor, Commerce, and Industry on May 14, 2015
Author:	Lourie	
Requestor:	House of Representatives	
Date:	May 20, 2015	
Subject:	Business Development Corporations	
RFA Analyst(s):	Martin	

Estimate of Fiscal Impact

	FY 2015-16	FY 2016-17
State Expenditure		
General Fund	$0	$0
Other and Federal	$0	$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	$0	$0
Other and Federal	N/A	N/A
Local Expenditure	N/A	N/A
Local Revenue	N/A	N/A

Fiscal Impact Summary
This bill, as amended, is not expected to affect General Fund, Federal Fund, or Other Fund revenue in FY2015-16.

Explanation of Fiscal Impact

Explanation of Amendment (May 14, 2015) – By the House LCI Committee
State Expenditure
This bill is not expected to change state expenditures for any state, federal, or other agency.

State Revenue
This amendment would amend Section 33-37-10(2) by deleting the item in its entirety and inserting an amended definition of "area or operation" in which the business development corporation is authorized to transact business as the areas that comprise the Federal Reserve Districts Five and Six. According to the Board of Governors of the Federal Reserve System, the Fifth Federal Reserve District consists of Virginia, Maryland, North Carolina, South Carolina, the District of Columbia, and most of West Virginia. The Sixth Federal Reserve District consists of Alabama, Florida, Georgia, and portions of Louisiana, Mississippi, and Tennessee. The amended definition of "area of operation" allows the business development corporation a broader geographical region in which to operate. This amendment is not expected to affect General Fund revenue in FY2015-16.

Local Expenditure
N/A

Local Revenue
N/A

Explanation of Bill filed January 29, 2015
State Expenditure
This bill is not expected to change state expenditures for any state, federal, or other agency.

State Revenue
A business development corporation (BDC), created by Congress as an amendment to the Investment Company Act of 1940, is a form of publically registered company in the United States that make loans to, and/or invest in small, developing, or financially troubled companies. They've stepped into a role that commercial banks vacated during the financial crisis, lending to companies that may not otherwise get financing. The yields are routinely above eight percent. These high payouts reflect the rewards of the sort of risky investments that many banks no longer can make. BDC's are similar in some sense to private equity or venture capital firms.

BDC, a privately owned, non-bank, term commercial lending organization was organized in 1958 by the South Carolina State Legislature as a non-governmental source of loan capital to promote business and industry in the state. The BDC specializes in the Small Business Administration (SBA) 7(a) loan guaranty program. These loans help small, for-profit, businesses secure financing with a demonstrated ability repay the loan.
This legislation also provided for banks in South Carolina to become members of BDC and to make lines of credit available to BDC. BDC partners with banks and other financial institutions to provide another arm of financing to small businesses which are unable to obtain financing through traditional lending sources. BDC can lend to most business operations, including industrial and manufacturing as well as retail, service, wholesale and contracting organizations. BDC is a term lender only and does not make short-term loans or provide lines of credit. Through the various SBA and other economic development programs, BDC can facilitate project financing for up to $5 million, and in some cases, more.

Certified Development Corporation of SC (CDC), a sister corporation of BDC, has participated in providing financial assistance to businesses since 1994. CDC is a private, non-profit corporation associated with BDC and is a statewide certified development company that can arrange 100% government-guaranteed debenture financing under the SBA 504 lending program – all of which are limited to the state of South Carolina. The SBA 504 lending program provides financing for major fixed assets such as equipment and real estate. Since 1958, BDC and CDC have approved more than 3,000 loans totaling in excess of $1.4 billion. Both BDC and CDC serve a unique role primarily by providing promising businesses a source for commercial loans not usually undertaken by traditional lending institutions.

This bill amends Chapter 37 of Title 33 to amend sections throughout relating to the organization, regulation, and operation of business development corporations. This bill would make the following changes:

- This bill would amend Section 33-37-10 to add the term "area of operation" to include the geographical area in which the corporation is authorized to transact business pursuant to this chapter which includes, but is not limited to, South Carolina, North Carolina, Georgia, Florida, Alabama, Virginia, and Tennessee. Previously, the South Carolina Business Development Corporation was restricted to activities and operation with the boundaries of the state.

- Section 33-37-30 would be deleted to allow a business development corporation to receive and hold money on deposit with the corporation.

- Section 33-37-40 would be deleted to no longer set aside at least ten percent of its net earnings for the preceding fiscal year as earned surplus. This surplus would be equal to one-half of the amount paid in on the capital stock then outstanding. This action would remove the reserve requirement of the BDC and remove any safety factor should the BDC have to absorb any losses from bad loans. This section would provide more funds for lending, but would increase the risk exposure of the overall portfolio from outstanding loan balances. This section is not expected to affect state General Fund revenue in FY2015-16.

Overall, this bill would expand the area of operation of the BDC to outside the state of South Carolina. This will expand the loan servicing area of the BDC and promote the growth of future loans. By eliminating the reserve requirement, the BDC will have an increased lending ability; however, the loans that a BDC make are inherently more risky, and the BDC will have to exercise considerable caution in weighing loan risk versus the return on loanable funds. Overall, this bill is not expected to affect General Fund revenue in FY2015-16.

Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater, Executive Director