

Senate Committee on Small Business and Entrepreneurship

"Investing in Idaho: Exploring Ways to Encourage Small Business Innovation and Start-Up"

U.S. Senator James Risch

Borah Building Boise, ID

May 3, 2019

Good Morning - My name is Tom Kealey and I am the new Director of the Idaho Commerce Department. I was appointed to the position in January 2019 by Governor Brad Little.

Prior to serving in this position, I had been in the private sector all of my career. I am a retired CPA and have held senior leadership and finance positions for large companies and small companies in Idaho. I also have experience in banking, private equity, and as an owner in different small Idaho businesses.

The Governor, our Commerce Dept. team and I whole heartedly support small businesses in Idaho and services that may assist them in prospering.

Idaho Commerce is the state's lead economic development agency, promoting the state in a variety of manners; as a travel destination showcasing Idaho's natural beauty and amenities to travelers; as a mentor to help Idaho businesses export to new international markets; as a partner to retain and support current Idaho businesses and help them expand operations here within the state; we work to attract new strategic businesses to Idaho; and as it pertains to today's hearing, to provide testimony on Idaho entrepreneurs and small businesses and their pivotal role in the future of this state.

Entrepreneurs and small businesses have a crucial role in the state economy. According to the U.S. Small Business Administration Office of Advocacy, Idaho small businesses account for 99.2% of all Idaho businesses and 55.8% of Idaho employees. About 50% of our businesses have less than 100 employees, and we have about of 830,000 in our state labor force.

Idaho Economic Development



See the chart attached that provides a recent overview of Idaho Small Business Statistics prepared by the SBA as of 2015.

IDAHO



158,426 Small Businesses
99.2% of Idaho Businesses

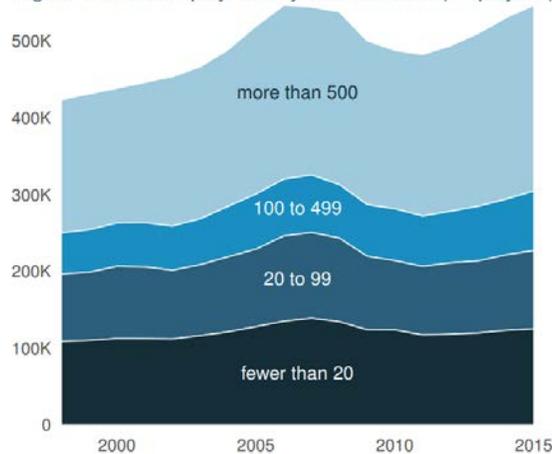
304,700 Small Business Employees
55.8% of Idaho Employees

EMPLOYMENT
14,392
net new jobs

DIVERSITY
10,585
minority-owned
businesses

TRADE
1,432
small business
exporters

Figure 1: Idaho Employment by Business Size (Employees)



Entrepreneurs, small business, and economic development go hand in hand. Entrepreneurs respond to unmet needs and demands in the market. They are problem solvers whose innovation provides the local economy with job opportunities, while improving the quality of life of the surrounding communities. According to the Kauffman Foundation, Idaho start-ups create an average of six jobs within their first year, with more than 80% of Idaho start-ups still being active after one year.

Idaho has a strong history of successful entrepreneurs and small businesses. Companies from the past include JR Simplot, Albertsons, Trus Joist, Boise Cascade, Coeur d'Alene Resort, Sun Valley Resort, Micron Technology. More recent successes across Idaho include: Jacksons, T-Sheets, Clearwater Analytics, Mark Monitor, Happy Baby, Agri-Beef, Premier Technology, Truckstop.com, Basic American, Winco, Power Engineers, etc.

Idaho small businesses are at the heart of Idaho’s strong economy. Idaho is ranked one of America’s Top States for Businesses. How did we earn this recognition?

(1) by having a talented and ethical workforce from communities across the state. Communities that are getting recognized for livability and economics.

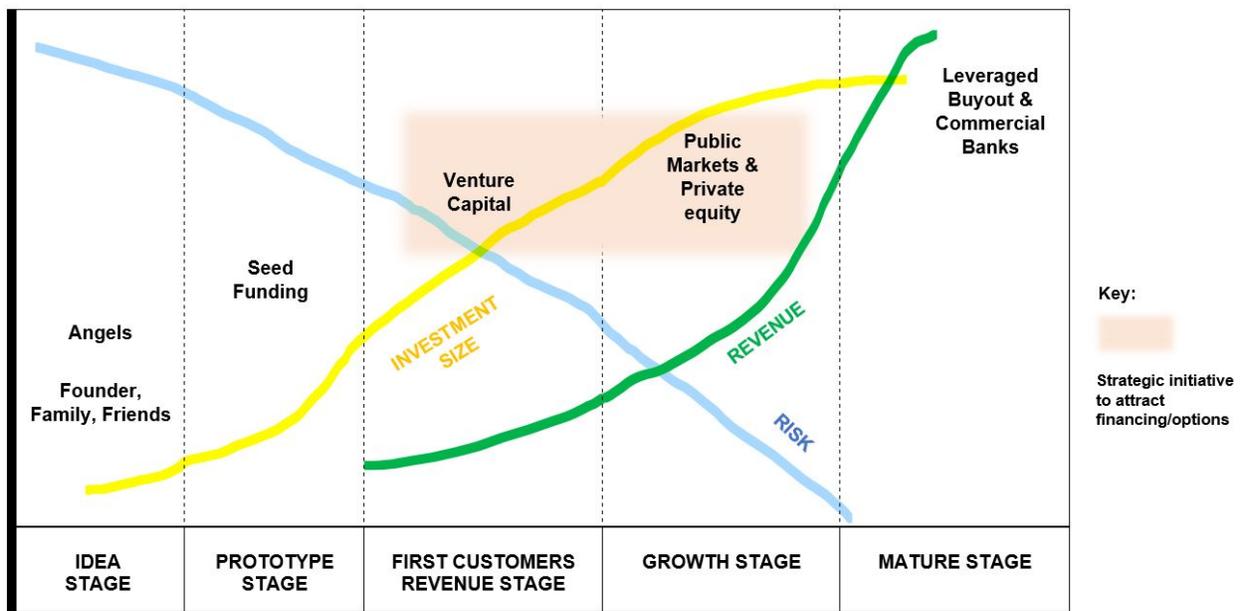
Livability.com listed three Idaho communities in the top 100 best places to live: Idaho Falls, Moscow and Boise.

(2) by offering a cost of living that is only 92% of the national average, coupled with the Milken Institute’s recognition of Boise, Coeur d’Alene, Idaho Falls, Lewiston and Pocatello as the best performing city economies,

(3) by offering small businesses lower costs to operate. Move.org ranked Idaho the #1 state in lowest utility costs, and

(4) by having an innovative ecosystem and talent. The Treasure Valley, which encompasses the Boise, Meridian, Nampa, Caldwell and surrounding area, was ranked 5th most innovative metro area in the U.S.

While Idaho has a growing ecosystem that provides a supportive environment for entrepreneurs to thrive, it is limited in its access to capital. Capital, both equity and debt, is a critical strategic component for Idaho businesses and businesses across the U.S. Generally, early stage to growth stage companies have the fewest sources and with the most expensive terms for accessing capital. For Idaho, a graph is provided to try and illustrate the sources of capital for early stage to later stage companies and where we have a gap in funding sources within Idaho. There are one or two active private equity funds in Idaho and no Small Business Investment Company (SBIC) fund within Idaho.



We support the role of the SBA in assisting small businesses in the United States. Our team works closely with the SBA, SBDC, SCORE and other agencies across Idaho with services that assist small businesses in Idaho.

We support the SBA's Strategic Objective 1.1

STRATEGIC OBJECTIVE 1.1 EXPAND ACCESS TO CAPITAL

Access to capital is critical to the long-term success of America's small businesses. Many entrepreneurs or small business owners often do not have the same access to credit as larger businesses that can more readily take on a traditional loan from a bank. Also, new entrepreneurs may not have a credit score that can guarantee them a loan – especially on a new or innovative product. In addition, some economically and socially disadvantaged businesses, including minorities, women, and veterans, are more likely to be denied credit and often rely on personal savings or credit cards to sustain their business.

At the SBA, one of the top priorities is to get capital flowing to small businesses. The SBA is working to ensure that gaps in the commercial lending markets are filled and that small businesses across the country are well-positioned to access credit on reasonable commercial terms. Through various programs and services, the SBA will support strategies that focus on opening credit with a special emphasis on minority-owned, women-owned, and veteran-owned small businesses and entrepreneurs. Through new technology, streamlined loan processes, and focused outreach, small businesses will be better able to start and expand.

Strategy 1: Increase capital provided to small businesses and emerging markets when conventional credit is not available. SBA loan guaranty and microloan programs play a critical role in ensuring access to capital on reasonable commercial terms for small businesses that cannot obtain it conventionally. When a small business cannot qualify for a loan under conventional credit standards, SBA's loan guaranty programs support necessary capital to entrepreneurs. The SBA will promote and develop its 7(a), 504, and international trade loan guaranty programs to best meet the needs of varying markets and entrepreneurs. The SBA will continue to use the direct microloan program to spur small-dollar lending through microloan intermediaries to the smallest of businesses. As an area of focus, the SBA, through its FY 2018-2019 Agency Priority Goal, will further expand lending to areas of the country located in socially and economically disadvantaged urban communities and rural areas.

Strategy 2: Supplement investment capital to small businesses that have inadequate supply. The Small Business Investment Company (SBIC) program stimulates and supplements the flow of private equity capital and long-term loan funds that small businesses need for the sound financing of their business operations and for their growth, expansion, and modernization; when such capital and funds are not available in adequate supply in the private capital markets. The SBA accomplishes this strategy by licensing professionally managed investment funds that raise private and/or public

capital and combine it with guaranteed leverage to invest in or lend to qualified small businesses. The SBA seeks to maximize participation of private financing sources.

Strategy 3: Strengthen and expand the network of lenders offering SBA products. SBA lending partners are critical to the delivery of small business loans. The SBA is committed to strengthening the relationships with existing SBA lenders and attracting new lenders. The SBA will partner with banks, credit unions, nonprofit intermediaries, and other lenders to ensure they have the tools and resources they need to best meet the needs of small businesses. Through SBA's lender relations specialists in the field, the SBA will play a key role in supporting outreach and training to lenders on SBA loan products.

Strategy 4: Expand knowledge of SBA loans through its network of resource partners and field offices. Each year, hundreds of thousands of entrepreneurs' access information about small business lending through SBA's network of resource partners (including Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and SCORE) and SBA field offices. It should be noted; Idaho is one of three states without a Women's Business Center. The SBA will strengthen and expand the knowledge of the specialists in these organizations to provide the highest quality of service and information possible. Through new technology and better communication, SBA's resource partners and field staff will receive specialized training on products and tools and how to best promote them.

There are commercial banks that offer SBA loan programs. Historically Zion's Bank has been ranked #1 annually in issuing the most SBA loans (Table below, effective 9/2017).

State Rank	Bank	Headquarters	# Loans	Avg Loan
1	Zions Bank	Salt Lake City, UT	109	\$109,921
2	DL Evans Bank	Burley, ID	72	\$93,728
3	Glacier Bank	Kalispell, MT	68	\$404,932
4	Idaho Central CU	Chubbuck, ID	58	\$203,755
5	Wells Fargo	Sioux Falls, SD	54	\$242,898
6	Washington Trust Bank	Spokane, WA	42	\$333,586
7	U.S. Bank	Cincinnati, OH	38	\$169,582
8	Idaho First Bank	Mccall, ID	28	\$119,382
9	Banner Bank	Walla Walla, WA	27	\$100,659
10	Northwest Bank	Boise, ID	20	\$421,600
11	KeyBank	Cleveland, OH	16	\$211,481
12	Mountain America FCU	West Jordan, UT	16	\$317,150
13	Live Oak	Wilmington, NC	15	\$1,206,667
14	Montana Community Development Corp	Missoula, MT	15	\$145,880
15	JPMorgan Chase Bank	Columbus, OH	11	\$154,209
16	Sunwest Bank	Irvine, CA	9	\$82,022
17	Bank of the West	San Francisco, CA	8	\$416,700
18	First Home Bank	Seminole, FL	8	\$249,375
19	The Bank of Commerce	Idaho Falls, ID	8	\$349,600
20	Celtic Bank	Salt Lake City, UT	6	\$1,689,217

On the SBIC web site, it was indicated that there are almost 300 SBIC funds which seems like a lot. But it takes some navigating to find that there are only 144 active funds that have a broad industry offering.

- FY2017 information shows 7 SBIC financings within Idaho and a total of \$9 million. We could not secure specific information about these companies or inquire on their experience with each SBIC fund.
- FY2018 information reports SBICs provided financings totaling \$5.502 billion to 1,151 small businesses. Of this amount, four (4) Idaho small businesses received financings in FY 2018 totaling \$35.326 million. The North American Industry Classification System code descriptions for these four businesses include consulting services, cosmetics, jewelry, and landscaping. The financings were provided by four different SBICs located in California, Connecticut, New York, and Texas.

This information demonstrates that Idaho is being discovered at a growth rate of 4X, however this represents only 1% of SBIC funding. No active fund appears to be closer to Idaho than those in Seattle, California and the Mid-Western states. We believe a new fund will open in Nevada in the near future, but we are not familiar with its investment criteria.

Idaho is a great place to start and operate a business and Idaho Commerce is here to help at all stages of business growth. Overall, we would like to support more SBIC funds but one(s) with a closer proximity to Idaho companies. And we would like a primary contact person(s) within the SBA, locally or in Washington DC area that may assist us with prescreening an SBIC fund before sharing names with our Idaho companies to streamline the process.

Overall, we support Governor Little's vision that we want to create opportunities and a quality of life where our kids and grandkids will stay and those that have left have opportunities to return to Idaho.

More capital sources for Idaho small businesses are integral to achieving this vision.

Thank you for holding this forum today and for listening to our comments and recommendations on behalf of Idaho small businesses.