

**STATE and
STATUTORY PUBLIC ENTITY
FISCAL IMPACT**

Drafting Number: LLS 11-0533

Date: March 2, 2011

Prime Sponsor(s): Rep. Lee

Bill Status: House Economic Business and Development

Fiscal Analyst: Jonathan Senft (303-866-3523)

TITLE: CONCERNING THE CREATION OF A SMALL BUSINESS CAPITAL AUTHORITY, AND, IN CONNECTION THEREWITH, IMPROVING COLORADO SMALL BUSINESSES' ACCESS TO CAPITAL, INCREASING THE AMOUNT OF AVAILABLE CAPITAL WITHIN COLORADO BY AUTHORIZING THE FORMATION OF PRIVATE CAPITAL EXCHANGES, ENABLING THE DIVISION OF SECURITIES TO LICENSE PRIVATE CAPITAL AGENTS, AUTHORIZING THE CREATION OF A REVOLVING FUND TO PROVIDE CONTINUED SEED AND EARLY-STAGE INVESTMENT CAPITAL TO SMALL BUSINESSES, REQUIRING FUND OPERATORS TO PROVIDE MATCHING CAPITAL FOR INVESTMENT IN SMALL COLORADO BUSINESSES, ADVANCING KNOWLEDGE ABOUT SMALL BUSINESS INVESTING, DEVELOPING STANDARDS FOR INVESTMENT CRITERIA, DISSEMINATING EDUCATIONAL MATERIAL ABOUT SMALL BUSINESS INVESTING, AND PROMOTING INVESTMENT IN COLORADO'S SMALL BUSINESSES.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
State Revenue		
Cash Funds		
Division of Securities Cash Fund	\$95,700	\$92,625
State Expenditures		
Cash Funds		
Division of Securities Cash Fund	\$85,550	\$76,144
FTE Position Change	1.0 FTE	1.0 FTE
Effective Date: August 10, 2011, if the General Assembly adjourns on May 11, 2011, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2011-2012: See State Appropriations Section.		
Local Government Impact: None.		

* Revenue exceeds expenditures to cover costs noted in the Expenditures Not Included section of this fiscal note.

Summary of Legislation

This bill creates a structure to raise money to loan to small businesses that generate jobs in Colorado. It creates a Small Business Capital Authority, and related board, to manage a state fund, which then issues bonds to raise money. The money raised by this bond sale is then allocated to

several private fund operators, who will loan the money to small businesses. Like other state authorities, the statutory public authority proposed in this bill, (i) operates independently of state resources, (ii) is not an agency of state government, and (iii) is not it subject to any administrative direction by the state.

This bill also creates an exchange for Colorado private securities, whereby Colorado business can raise capital and shares in these businesses can be traded.

State Revenue

In FY 2011-12, this bill **increases state revenue by \$95,700** from fees paid to the Department of Regulatory Agencies (DORA). Beginning in FY 2012-13 this bill **increases revenue by \$92,625** per year. The bill proposes a private capital exchange, where securities of Colorado companies can be traded by individuals located in Colorado, as defined in the bill. In order to facilitate the trade of these securities, an individual must be licensed by the state. Each license carries a fee. An estimated 100 applicants will apply for the license per year. Seventy five applicants will renew thereafter. The cost of an original license is \$957, based on other securities licenses. It is renewed every year. These revenues are credited to the Division of Securities Cash Fund. Table 1 identifies the fee impact of this bill.

Table 1. Fee Impact on Individuals, Families or Business						
	FY 2011-12			FY 2012-13		
Type of Fee	Fee	Number	Total	Fee	Number	Total
Original License to Trade Private Capital Securities	\$957	100	\$95,700	\$957	25	\$23,925
Renewal License to Trade Private Capital Securities				916	75	68,700
		TOTAL	\$95,700		TOTAL	\$92,625

State Expenditures

In FY 2011-12, licensing and regulating an estimated 100 private capital agents will cost \$85,550 and 1.0 FTE at the Department of Regulatory Agencies (DORA). Beginning in FY 2012-13, costs are \$76,144 and 1.0 FTE per year. This bill requires the DORA to design a licensing system to ensure that the Private Capital Agents – traders of Colorado private securities – trade in a way that protects investors. This process requires DORA staff to perform a number of duties including exam design, exam administration and compliance. Additional costs are incurred from complaint mitigation and legal advice related to enforcement. These costs are shown in Table 2.

Table 2. Expenditures Under HB 11-1266		
Cost Components	FY 2011-12	FY 2012-13
Personal Services (DORA)	\$65,223	\$60,520
FTE	1.0	1.0
Operating Expenses and Capital Outlay	5,653	950
Legal Services (200 Hours)	14,674	14,674
TOTAL	\$85,550	\$76,144

Expenditures Not Included

Certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill, rather than in this bill. The appropriated costs subject to this policy are summarized in Table 3.

Table 3. Expenditures Not Included Under HB 11-1226*		
Cost Components	FY 2011-12	FY 2012-13
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$7,100	\$7,100
Supplemental Employee Retirement Payments	2,696	3,176
TOTAL	\$9,796	\$10,276

**More information is available at: <http://colorado.gov/fiscalnotes>*

Statutory Authority Impact

This bill creates an independent public authority to manage a state fund, which is not under the administrative direction of any state entity. This fund will issue bonds to raise money to loan to small businesses. The authority is managed by a board of 7 members, who will meet 4 times per year at a cost of roughly \$187 per member, per meeting. Each member will also receive no less than \$10,000 per year in compensation.

The state fund created by the bill will annually secure at least \$50 million each year, which can be generated from the issuance of bonds and other sources. The money in the state fund is distributed to fund operators, who are chosen by the board, to make qualified investments in small businesses that create Colorado jobs. These fund operators will match the state funds provided to them, and invest the money according to criteria set forth in the bill. The small business receiving the investment will pay the money back to the fund operator, and ultimately to the state fund, at a percentage of the business' sales revenue.

State Appropriations

For FY 2011-12, this bill requires an appropriation of \$85,550 and 1.0 FTE cash fund to the Department of Regulatory Agencies.

Departments Contacted

Governor's Office

Legislative Council

Regulatory Agencies