



Priority is given to businesses in low-income areas and to minority-owned businesses. During the 1980s, loan loss rates were 3-11%. To reduce loss rates, a new management team plans to restructure some regional offices and improve recordkeeping and performance. AOR found that this state program will likely become a solid lending source while safeguarding public funds. However, the report states the reach of the program is too limited, with less than 300 loans guaranteed.

The largest small business lending program is administered by the federal Small Business Administration (SBA). SBA guarantees up to 90% of loans made by private financial institutions; the agency also makes a few direct loans to Vietnam veterans and handicapped individuals. SBA's primary loan guarantee programs are known as the 7A and 504 programs. With a \$1 million maximum, the 7A program is broader, and includes financing for working capital, equipment, business buy-outs, and leasehold improvements. The 504 program, which has a \$750,000 maximum, is limited to financing real estate acquisition, construction, or renovation of owner-occupied structures. California's major financial institutions rarely participate in SBA programs; the state's major participating lender (with over \$73 million loaned) is the Truckee River Bank. By requiring a business to have two years of profits to be eligible for a loan, SBA operates as a long-term lender, providing established small businesses with greater leeway in lending (rather than start-up funds for fledgling businesses).

In 1977, Congress enacted the Community Reinvestment Act (CRA), 12 U.S.C. § 2901 *et seq.*, as a response to alleged disinvestment by financial institutions in low-income and minority neighborhoods. CRA requires financial institutions to meet "the credit needs of the entire community, including low and moderate income neighborhoods, consistent with the safe and sound operation of the institution." However, CRA requirements are vague, and do not mandate any specific level of inner city business lending.

Initially, CRA had little impact until social advocacy groups pressured financial institutions to follow CRA's mandate. Additionally, federal regulatory agencies have recently acted to require a certain inner city commitment from financial institutions. Governmental interpretation of the CRA has moved from a prohibition on "redlining" inner city areas to a mandate to lend in low-income areas. In 1989 and 1990, a number of major banks in California made

multi-million dollar commitments to inner city lending. However, the report states that CRA's potential for inner city business lending is limited, because it does not require specific levels of business lending. In addition, major banks are unwilling to disclose information on business loans and performance rates.

The report concludes that no new state programs or bureaucracies are necessary, but recommends building on existing programs in three ways:

- Inner city loan activities generated by new private sector CRA initiatives should be monitored. This data would also help define what additional state initiatives, if any, are needed.

- California should explore options (similar to those used in Florida and Michigan) to double its current \$33 million available in loan guarantees.

- State Enterprise Zone tax incentives (under which a bank or other private financial institution may deduct the interest payments of Enterprise Zone business loans) should be expanded.

A fourth recommendation is inner city investment by individual citizens and foundations through local subscription funds. The report concludes that expansion of existing programs and an infusion of private capital will provide a more deliberative, reflective, and long-term approach to assist viable inner city businesses.

#### SENATE OFFICE OF RESEARCH

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Established and directed by the Senate Committee on Rules, the Senate Office of Research (SOR) serves as the bipartisan, strategic research and planning unit for the Senate. SOR produces major policy reports, issue briefs, background information on legislation and, occasionally, sponsors symposia and conferences.

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#### MAJOR PROJECTS:

In January, SOR released three reports, described as "Blueprints," which offer strategies for addressing major public policy issues of the 1990s:

*Blueprint for Our Future: Meeting Human Needs in the 1990s* (January 1991) focuses on the increasing demands on public programs in three areas: health issues, family policy, and population changes. Regarding health issues, the

Blueprint summarizes problems relating to access to health care, adolescent pregnancy and parenting education programs, drug use, AIDS, mental health, and public health objectives. The Blueprint suggests certain actions in response to these problems, including restructuring employer-based health insurance, reorganizing and expanding services for pregnant minors, providing a multi-faceted approach to drug and alcohol abuse, encouraging the development and use of experimental drugs for AIDS, and reducing fragmentation of mental health services.

The Blueprint's family policy section summarizes issues relating to the family, including child care, parental leave, foster care, child support, the disparities between rich and poor, domestic violence, and integrated family services. Among other action proposals, the Blueprint suggests improving enforcement of child support awards, increasing income tax rates for the highest-income taxpayers, reinstating the inheritance tax, and integrating and consolidating services available to poor families.

The third section of this Blueprint, covering the dynamics of population change, reviews immigration/border issues and consumer protection and antitrust problems. Proposed actions include a study of the costs and benefits of documented and undocumented foreign workers and an increase in the penalties for consumer fraud.

The concluding section, funding options, addresses California's budget needs and proposes a combination of innovative and traditional methods for increasing tax revenues in order to finance the Blueprint's recommended actions. The Blueprint's proposals for resolving the budget shortfall include broadening the sales tax base by taxing some services, adding a new tax rate for the wealthiest taxpayers, eliminating mortgage deductions for second homes, and increasing the tax on alcoholic beverages.

*Blueprint for Our Future: Safeguarding California's Environment* (January 1991) presents a two-part discussion of issues relating to the preservation, management, and improvement of California's environment. The first section, "Focus on Environmental Contaminants," discusses four areas: pollution prevention, environmental health, ecological farming, and approaches to pollution control. The second section, "Focus on Growth," discusses problems and possible actions in five additional areas: state-managed growth, regional planning, open space, traffic congestion, and coastal protection.



The Blueprint's recommendations for action in the 1990s include: establishing a pollution prevention office; assessing fees for industrial chemical use; evaluating public health consequences of contemporary agricultural practices; developing comprehensive, consistent state and regional conservation planning; and increasing sales taxes on gasoline and bridge tolls.

One innovative Blueprint proposal would restructure the state's pollution control system. Rather than the existing "command-and-control" system which requires the state to develop and enforce complex emission standards, the Blueprint proposes a "marketable-permit" emission control system. Under the permit system, a polluter must have a permit to emit pollutants; the permit would be issued upon proof of acceptable emission rates. The state agency would periodically reduce the acceptable emission rate and vigorously inspect sources to enforce the more rigid standards. The permits would control both stationary sources of pollution and motor vehicles.

*Blueprint for Our Future: Increasing Voter Participation and Reforming the Initiative Process* (January 1991) explores solutions attempted by other states and offers its own suggestions for increasing voter participation and reforming the initiative process. The Blueprint's recommendations for action include the establishment of a procedure whereby any voter could sign up as a permanent absentee voter and automatically receive an absentee ballot before each election; identification of paid signature gatherers for initiatives; increasing the number of signatures required to qualify an initiative for the ballot when paid circulators are used; and restricting the number of signatures gathered in a single county from exceeding 10% of the required total.

