

**Falcon National Bank  
Business Seminar  
“Economic Stimulus”**

Falcon National Bank’s Business Seminar was held at the Holiday Inn on Thursday, May 28, 2009 at 7:00 am in collaboration with the St. Cloud Area Chamber of Commerce.

Josh Nelson acted as moderator and Kelly Werner acted as secretary.

The first order of business was a welcome from Teresa Boenen, president of the St. Cloud Area Chamber of Commerce. The St. Cloud Chamber has collaborated with the Minnesota Chamber. Through this partnership, the St. Cloud Chamber is able to offer an opportunity through the Carl Pohlad Family Foundation, which is making 5MM available to small businesses in the form of grants and loans. Grant funds are available for retaining employees and business planning. There are also low interest (3%) loans available. For more information, contact the St. Cloud Chamber or visit the website at MNchamber.com. Applications are due by May 29, 2009. The local chambers are processing the applications. All grants will be awarded in August. There has been a great response, and it is very competitive.

The next order of business was the introductions of the panelists by John Herges, president and CEO of Falcon National Bank. John thanked Teresa for the opportunity to collaborate with the St. Cloud Chamber, and noted what a wonderful job the organization is doing in helping local businesses. Ed Daum was the first panelist introduced. Ed is the District Director of the US Small Business Administration in the Minneapolis District Office. He was appointed to that position in August 1987. He has been with the SBA since 1975. He is also a CPA. The next panelist to be introduced was Ann Makres. Ann is the Senior State Liaison with the Small Business-Self Employed division of the IRS. Ann collaborates with the tax practitioner and small business organizations to deliver information on small business tax issues and engage partners on IRS practices, policies, and procedures. Ann has been with the IRS since 1987. In the past nine years, Ann has put together numerous seminars on small business tax laws. Paul Moe was the final panelist to be introduced. Paul is the deputy commissioner of the Minnesota Department of Employment and Economic Development (DEED). Paul is responsible providing for overall top-level leadership and direction within the department, and assisting the commissioner in supporting administrative and internal functions of the department. He has oversight over a variety of businesses and community finance programs, including the Job Opportunity Building Zone (Job Z), Minnesota Investment Fund, Small Business Adult and Home Program, and the Business Infrastructure grant program among many others. He is also the Executive Director for the MN Agriculture and Economic Development Board, a statewide authority for the issuance of tax-exempt revenue bonds. John thanked each of the panelists for their time. The next introduction was Josh Nelson, who moderated.

Josh gave an overview of the seminar. Each panelist was given 10 minutes to present the ways that the economic stimulus is offered in their area. This was followed by staged questions, which Josh prepared in advance, and finally audience interaction.

Ann explained that the American Recovery & Reinvestment Act has three types of provisions for small businesses that administrate through the IRS. First, there is the accelerated depreciation program. Ann explained that a capital asset is something that is going to last for more than a year. The general concept of depreciation is that you need to write the cost off over a period. The bonus or additional depreciation allows a business to write off 50% of the asset the year the asset was purchased instead of taking the cost over a period. The balance can be written off over the useful life of the asset. The second item has been to extend the increase limit on Section 179. Section 179 is an expensing provision in the internal revenue code. This provides a way to write off up to 250M in depreciable assets in the year purchased rather than write them off over the useful life. Had this bill not been passed the limit would have gone down to 133M. The intention of the bill to allow businesses to be able to purchase new equipment, which in turn will keep the manufacturers in business, while making the business more efficient. The income of the business limits this plan, so if a business has no income, this plan would not apply. The three programs can be stacked upon each other. The goal is to accelerate the write offs on the tax returns. The next area Ann covered was net operating loss (NOL) changes. With this plan, if a business had a bad year the business is able to get more cash. As a rule, a NOL is carried back two years to and carries forward 20 years, or one may choose to forgo the carry back and just carry forward. The bill allows for a five-year carry back. This is an advantage because the economy was doing much better five years ago and the business may have paid quite a bit of taxes five years ago. The business can file an amended return or a 1045 and get some of the taxes paid in then now when it is needed. The business does need to have a loss year to qualify for this program. The third area affect by the stimulus program is the credits area. Many people confuse tax deductions and tax credits. With a deduction, the amount of taxable income is reduced, whereas with a credit the tax is written off dollar for dollar. A credit is favored. One of the credits coming down is the energy credit. Individuals making energy efficient improvements including windows, doors, insulation, roofs, and water heaters can receive a tax credit of 30% up to \$1.5M on their next tax return. This is for personal residents, vacation homes, etc. Another credit is a 2M tax credit for energy efficient homebuilders and 1M for manufactured home builders. There is also money available for commercial buildings, up to \$1.80 per square foot is available for making energy efficient whole building improvements, or \$0.60 per square foot for cooling, the building envelope, and lighting. There is also a first time homebuyer credit. Unlike 2008, in 2009 the homebuyer will receive 10% up to 8M, and will not be required to pay the money back. There is also a new COBRA provision. For a nine-month period, an individual only has to pay 35% of the COBRA provision; the business will pay the other 65%. However, the business can get their share of the COBRA provision back in the form of a credit by filling out the 941 form. Another way the business can get this provision back more quickly is to decrease the amount of deposits. The department of labor has more details. The "making work pay credit" is a credit where the taxpayers get 6.2% of the amount they made working, up to \$400/individuals & \$800/married couples as an employer.

Paul Moe gave an overview of the department of employment and economic development. The department's purpose is to help and enhance opportunities for prosperity. Those opportunities relate to businesses, communities, and individuals, and are done on both state and local levels. There are three operating divisions. The first is business and community development, which are programs for business and communities as it relates financing. Next is infrastructure development, which involves community assistance. Another division is the work force development division, which is the largest division, and this helps individuals transitioning between work, dislocated worker programs, state services for blind and vocational rehabilitation. Another division is unemployment insurance. This division provides benefits to unemployed. ARRA is Federal stimulus program. The federal government has infused a significant amount of capital into the program. This is a 787 billion effort. Paul pointed the audience in the direction to go for assistance. On the web, people can go to [recovery.gov](http://recovery.gov), [positivelyminnesota.com](http://positivelyminnesota.com), and [workforceyou.com](http://workforceyou.com), which is Stearns and Benton county specific. People can also visit [SCSU.edu](http://SCSU.edu), as St. Cloud State University is partnered with the SBA. There is also an office located at St. Cloud State University. People can also visit [energy.mn.gov](http://energy.mn.gov), which is the website for the Department of Commerce Energy Security, and there are new programs rolling out with that as well. Federal agencies are getting information out on stimulus dollars using applications, forms, and requirements. DEED is currently working with federal partners waiting for more information. Paul noted that the 35% of COBRA individuals are paying in will be reimbursed through the health care access fund through the Department of Human Services. The Department of Commerce has an energy security that provides funds for weatherization which program that helps low-income households make energy efficient improvements. The State Energy Efficiency Program has been set up for energy improvements for commercial and industrial buildings. The max grant for this program is 500M. 2MM has been made available for businesses making parts or components for energy efficient items. Training and work force development is available for weatherization programs. The Department of Treasury is offering a variety of new bonds.

Ed Daum gave an overview of how the SBA involved with the stimulus package. There are many organizations in St. Cloud geared toward helping small businesses, including, a Small Business Center, SCORE, Women in Business, and a government procurement program. The SBA teaches businesses how to sell to the federal government. The disaster program helps areas that have recently experienced a natural disaster. For example, this program is currently making loans to business owners in East Grandforks area who have suffered from severe flooding. Over the last two years, there has been a significant downturn in lending in MN. In fact, lending in MN is down 50%. MN ranks in top ten in US for SBA lending. Part of decline is due to less demand from business, but also banks have tightened credit standards. Typically, the SBA guarantees from 50-85% of a bank loan. The bank charges the customer guarantee fee between 2-3.5%. SBA charges the bank a guarantee-servicing fee. With stimulus program, SBA has eliminated all fees to provide lending incentives. In addition, the SBA guarantee up to 90%. SBA works with about 450 MN banks. The SBA is great because there is less risk for banks. The stimulus package has helped the SBA with brokers. Banks will sell loans get money back and make more loans to community. SBA has a micro loan

program. There are 5 micro loan lenders that make small 35M loans. Some changes in the 504 program have been made with the Recovery Act. There is now refinancing available for business expansion. The SBA portfolio is comprised of about 40% of 504 loans or 1.5 billion. In addition, assurance bonds have increased from 4MM to 5MM. The SBA is also rolling out a brand new program. The details will be out June 8, and applications accepted beginning June 15. Basically, the SBA will offer short-term loans of up to 35M which can be used to make 6 months of principal and interest payments on qualifying loans for existing viable for profit businesses. Businesses can get a 35M interest free loan disbursed over a 6-month period. The loan will be 100% guaranteed by the SBA, with no servicing fee, SBA will pay the bank monthly interest payments. The money is to be used for past due payments. Viable business means that you need to have been in business for a couple of years, and you need to show a profit for one year. This program is called America's Recovery Capital (ARC). This program is geared towards existing businesses, not startups.

### Preformatted questions

#### **Q: Whom do we contact at your respective organization for more information?**

**Ed:** Look at SBA.gov or go to the recovery webpage. Call the SBA office or send an e-mail. The SBA has an e-mail list for news releases. Contact your local chamber. Go to your lender.

**Ann:** Start with your accountant. Contact the business and specialty tax helpline. This cuts out some menus.

**Paul:** An existing business looking for financing should start with their banker. A startup small business should begin with a development center. If you were looking for a particular subject matter about your community go to DEED website.

#### **Q: Who is eligible?**

**Paul:** There is a focus for renewable/green programs. There are opportunities for commercial and industrial businesses.

**Ann:** Construction businesses will benefit from the energy credits, first time homebuyers, and businesses experiencing a loss.

**Ed:** The business needs to be a small business, which 97% of businesses in MN are small businesses. The businesses cannot be non-profit, and cannot dominate the industry. The SBA looks at management experience, and if the business can repay loan from proceeds from business, not from collateral, and not from a second job. SBA will not reject on basis of lack of collateral. Exceptions can be made, if in doubt call the SBA office.

#### **Q: If we are confused about the process, what steps do small business owners need to make?**

**Ann:** Look at publications on website. Then contact your accountant or financial advisor, and finally check with the IRS.

**Paul:** Small business owners can start with the Small Business Development Center or The Small Business Assistance Office.

**Ed:** The audience is off to a good start by coming to seminar. Start with your lender, who has been informed of the Recovery Act. Go to SBA website, SBA.gov. There are training sessions and free classes available on the Website. Other resources include, Small Business Development Center, SCORE, free and confidential.

**Q: SBA has eliminated fees, increased guarantees, and increased 504 with the Recovery Act. Are these changes permanent?**

**Ed:** Businesses will want to get out there as soon as possible. These changes will be effective until the money is gone or through 2010. Businesses will want to do something in the next 6 months or year. These changes are not permanent.

**Q: What is one concrete action a small business owner can make today to take advantage of the IRS involvement in the recovery? How have extended depreciation and net operating losses changed due to the stimulus?**

**Ann:** If you can afford to buy depreciable assets this is a good year to do it. New assets will probably be more efficient, so you will save on operating costs and you will be able to write off the costs more quickly. This is also a good year to market energy credits to customers if you are in construction or home remodeling. We do not know how long the credits will be available. The stimuli from the various organizations can be stacked. For example a business can get an SBA loan to purchase new equipment and accelerate the depreciation with the IRS. The SBA fee elimination is effective through December 31, 2009 or until the money runs out. The IRS stimulations are for the tax year 2009.

### **Audience Questions**

**Q: Why is DEED unable to help many retailers?**

**Paul:** This is because of competition in the industry, but SBA can certainly help. In fact, retailers make a good portion of SBA loans.

**Q: If you have equipment purchased in 2009 but not installed, will that qualify for the IRS deductions offered in the stimulus program?**

**Ann:** It must be placed and in service in 2009.

**Q: Looking for information on the MN Grow Pohlads Foundation Grants.**

**Teresa:** The Pohlad Foundation Grant information is available on the Chamber's web site at MNchamber.com and click on Grow Minnesota. The four types of funds and information are available there. It was recommended to have all info ready beforehand.

**Q: If you have an existing SBA loan, can you refinance or take out a new SBA loan and payoff the current SBA loan and get a larger loan.**

**Ed:** This depends on the amounts and percentages. Expanding your business will qualify, but not necessarily improving.

**Q: What is the timeline for applying for a SBA loan, and what is the difference between a preferred lender, and not a preferred lender?**

**Ed:** SBA office in MN has 12 people. All SBA lending is centralized. The SBA takes applications electronically. If you go to a lender and have a complete loan application the application is usually processed within a few days to a week. The time line also depends on the program. The SBA can process an express program in a couple of hours. A non-preferred lender who submits an application needs to be hand reviewed by the SBA, the turn around is two weeks. A preferred lender has a lot of SBA experience, has been examined by the SBA, have more rights than non-SBA lenders in areas of deferment, and can take actions that non-preferred lenders cannot.

**Q: Explain Patriot Express**

**Ed:** This allows for automatic turnaround for veterans.

**Q: Does the bit-ticket item need to be for primary residences to qualify for the renewable energy credit?**

**Ann:** It has to be a residence, but it does not need to be your personal residence for big ticket items. Small ticket items such as doors and window do need to be on personal residences. Three websites to check are [www.IRS.gov](http://www.IRS.gov) (there is a link on the homepage), Energystar.gov for energy items in stimulus, and dol.gov for cobra issues.

**Q: Elaborate on 504 program-is it designed around buying a piece of equipment or a building?**

**Ed:** Yes, the item needs to be a long term asset, where long term means a life of at least 10 years.

Josh thanked the speakers.

John thanked the speakers, Josh, and thanked the audience for their time.

No formal motion was made as a result of this discussion.

The meeting was adjourned at 9:00am.