PORTLAND DEVELOPMENT COMMISSION
Portland, Oregon

RESOLUTION NO. 6788

ADOPTING UPDATED BUSINESS FINANCE PROGRAM FINANCIAL GUIDELINES

WHEREAS, in 2007 the Portland Development Commission ("PDC") Board of Commissioners ("Board") adopted Resolutions No. 6444 and No. 6501 establishing guidelines for Business Finance loan and grant products that are funded solely by PDC, as well as through partnerships with other agencies and with federal or city funds;

WHEREAS, on March 11, 2009, the Board adopted Resolution No. 6683 suspending the financial guidelines authorized by Resolutions No. 6444 and No. 6501 through June 30, 2010, and establishing temporary guidelines;

WHEREAS, staff has undertaken a review of financial products offered by PDC in light of current PDC strategic objectives and The Portland Economic Development Strategy and developed updated Business Finance Program Financial Guidelines; and

WHEREAS, adopting these revised guidelines will enhance PDC's effectiveness in supporting businesses throughout the city and meeting demands of the financial market.

NOW, THEREFORE, BE IT RESOLVED that the Business Finance Program Financial Guidelines described herein and attached as Exhibit A (other than guidelines for the Small Contractors Loan Insurance Program which were authorized by Resolution No. 6766) are hereby adopted (the "Guidelines"), and shall supersede and replace guidelines authorized by Resolutions No. 6444, No. 6501, and No. 6683:

- Business Incentive Program ("BIP");
- Small Business Loan Fund ("SBLF");
- Business Development Loan Fund ("BDLF");
- Economic Development Administration ("EDA");

BE IT FURTHER RESOLVED that financial assistance offered under the Guidelines shall be approved in accordance with Resolution No. 6441 establishing the Loan Review Committee;

BE IT FURTHER RESOLVED that the Executive Director is authorized to make procedural and administrative changes including loan term and interest rate adjustments to the Guidelines, and shall present any policy changes to the Board for approval; and

BE IT FURTHER RESOLVED that this resolution shall become effective immediately upon its adoption.

Adopted by the Portland Development Commission on April 28, 2010.

Renée A. Castilla

Renee A. Castilla, Recording Secretary

Business Finance Program Financial Guidelines

Business Incentive Fund (BIF)

Business Development Loan Fund (BDLF)

Small Business Loan Fund (SBLF)

Economic Development Administration (EDA)

Small Contractors Loan Insurance Program (SCLIP)

BUSINESS INCENTIVE FUND (BIF)

The Business Incentive Fund (BIF) is focused on the creation and retention of jobs in Portland's Urban Renewal Areas. Loans made from BIF are priced to encourage significant private investment in each project relative to the amount of public investment. By providing an incentive to increase the amount of private leverage in each transaction, BIF is designed to attracted more investment into Portland businesses, and increase the number of jobs.

Eligible Purposes

Redevelopment or rehabilitation with acquisition costs:

Funding for this program is through tax increment financing (TIF). Therefore, only costs necessarily incurred to construct physical improvements to real property located within an Urban Renewal Area are eligible for funding. Physical improvements include tenant improvements, HVAC (heating, ventilating and air conditioning) systems, stormwater management systems, water conservation systems, solar power generation systems, and heat recapture systems, to the extent integrated with the structure and installed as real property fixtures. <u>If property acquisition costs are included as part of the requested funding, no more than 49% of the total TIF funds for the project may be used to pay for acquisition</u>.

Funds are not available for speculative real estate. If a borrower owns the building in which the improvements will be constructed, it must occupy 50% or more of the building. If the borrower leases the space in which the improvements will be constructed, it must occupy at least 75% of the leased space.

Eligible Borrower

An Eligible Borrower is a business in one of the following categories, These categories reflect the strategic priorities of PDC, as defined in the Portland Economic Development Strategy, PDC Strategic Plan, proposed Community Economic Development Plan, and Downtown Retail Strategy.

<u>Target Cluster</u> businesses are defined as traded sector firms, in a target cluster, having the highest potential for growth due to the concentration of firms in the city and the existence of critical elements to competitive advantage over other industries. The target clusters are Activewear, Clean Technology, Advanced Manufacturing, and Software.

<u>High Growth</u> businesses are defined as traded sector firms characterized by robust historical sales growth and identified markets for potential exponential growth in sales and previous success in raising either debt or equity capital to finance initial start-up and expansion. Public benefits of investing in these

businesses include substantial job growth, increased business income taxes and license fees and heightened demand for commercial space.

Community Economic Development businesses promote wealth creation opportunities for small business owners and jobs for neighborhood residents and offer a mix of goods and services, and investing in these businesses furthers the promotion of physical revitalization in neighborhood commercial corridors.

Downtown Retail businesses reside inside the Downtown Retail corridor. (See attached map).

Service Area

All Urban Renewal Areas, subject to availability of funds.

Loan Program Guidelines

- Loan Amount: Minimum of $25,000 and maximum of $2 million

- Interest Rate:

Leverage (private to public):	
Higher than 6:1	Prime
Over 3:1 to 6:1	Prime + 1%
1:1 to 3:1	Prime + 2%
Less than 1:1	Prime + 3%

- Payments: Principal and interest. Payments may include up to one year of interest only payments based on project underwriting.

- Fee: 1% of amount borrowed

- Term: Up to 10 years, but not greater than term of lease plus all options. Borrower must have lease term plus options at the sole discretion of borrower of at least five years.

- Amortization: Up to 10 years; all unpaid principal and interest due at maturity.

- Collateral: Security interest in real property or a blanket UCC filing or both.

- Guarantee: Personal and/or corporate guarantees of all principals and entities with 20% and higher ownership interest in the business.

- Combined Loan-to-Value: Maximum of 100%

- Repayment Ability: Must demonstrate positive cash flow; combined Debt Coverage Ratio of 1.10 or better.

- Credit: Borrower and principals of company must not have unpaid tax liens, collections, charge-offs, or bankruptcies in the last seven years. For any past due payments over 30 days, Borrower must provide a written explanation acceptable to PDC.

- Business Management Experience: Borrower must have at least 3 years of business management experience.

- Industry Experience: Borrower must have at least 3 year of industry experience.

- Financial Reporting: Borrower shall provide financial statements on the business and principals on annual basis.

- Job Reporting: Borrower shall provide annual information on jobs created and retained.

Note: Leverage is calculated as follows: *Total Project Cost (X) less PDC Funds (Y) = Adjusted Project Cost (Z).* Calculation: *Z divided by Y*

BUSINESS DEVELOPMENT LOAN FUND (BDLF)

The main objective of the Business Development Loan Fund (BDLF) is to encourage job retention and growth in PDC's Target Cluster and High Growth businesses. This loan fund was originally established with a combination of federal and city grants. The amount of funds available is dependent on the performance of the fund's portfolio of outstanding loans.

The Portland Economic Development Strategy adopted in 2009 identified four traded sector clusters as having the highest potential for growth due to the concentration of firms in the city and the existence of critical elements to competitive advantage over other industries. The four clusters are Activewear, Clean Technology, Advanced Manufacturing, and Software.

The economic development strategy also emphasized efforts to assist high growth firms, which are traded sector firms that are targeted by PDC's entrepreneurial development efforts, and are characterized by robust historical sales growth and identified markets for potential exponential growth in sales.

Eligible Purpose

The BDLF is a city-wide program designed to assist new and existing target cluster and high growth businesses with working capital and financing for equipment purchases.

Funds may also be used to provide insurance for a bank loan for an eligible borrower under PDC's Small Contractors Loan Insurance Program (SCLIP).

Eligible Borrower

An Eligible Borrower is a business in one of the categories of traded sector businesses. These categories reflect the strategic priorities of PDC, as defined in the Portland Economic Development Strategy and PDC Strategic Plan.

<u>Target Cluster</u> businesses are traded sector firms, in a target cluster, having the highest potential for growth due to the concentration of firms in the city and the existence of critical elements to competitive advantage over other industries. The target clusters are Activewear, Clean Technology, Advanced Manufacturing, and Software.

<u>High Growth Businesses</u> are defined as traded sector firms characterized by robust historical sales growth and identified markets for potential exponential growth in sales and previous success in raising either debt or equity capital to finance initial start-up and expansion. Public benefits of investing in these businesses include substantial job growth, increased business income taxes and license fees and heightened demand for commercial space.

Service Area

Citywide

Loan Product Guidelines

- Loan Amount: Minimum of $25,000 and maximum of $250,000
- Interest Rate: Prime + 4%
- Accrual Rate: If required to meet the cash flow needs of the business, the payment of a portion of the accrued interest, up to 4%, may be deferred until the loan is repaid. All accrued interest is due at the end of the Term of the loan.
- Payment: Principal and interest. Payments may include up to one year of interest only payments based on project underwriting
- Fee: 2% of amount borrowed
- Term: Up to 3 years, but not greater than term of lease plus all options. Borrower must have lease term plus options at the sole discretion of borrow of at least three years.
- Amortization: Up to 7 years; all unpaid principal and interest due at maturity.
- Collateral: Security interest in real property or a blanket UCC filing or both.
- Guarantee: Personal and/or corporate guarantees of all principals and entities with 20% and higher ownership interest in the business.
- Combined Loan to Value: Maximum of 100%.
- Repayment Ability: Must demonstrate positive cash flow; combined Debt Coverage Ratio of 1.10 or better.
- Credit: Borrower and principals of company must not have unpaid tax liens, collections, charge-offs, or bankruptcies in the last seven years. Any past due payments over 30 days must have written explanation acceptable to PDC.
- Business Management Experience: Borrower must have at least 3 years of business management experience.
- Industry Experience: Borrower must have at least 3 years of industry experience.

- Financial Reporting: Borrower shall provide financial statements on the business and principals on annual basis.

- Job Reporting: Borrower shall provide annual information on jobs created and retained.

SMALL BUSINESS LOAN FUND (SBLF)

The Small Business Loan Fund (SBLF) is designed to meet the specialized needs of small businesses citywide, with a focus on minority and women owned businesses. The primary objective is to build community wealth through local ownership of businesses and the creation and retention of jobs in Portland neighborhoods.

The SBLF also seeks to bridge the gap in project costs not covered by private financing and increase the credit-worthiness of marginal clients so they can attain private sector financing.

Eligible Purpose

Funds may be used for working capital, equipment purchase, and commercial building acquisition for the operation of the borrower's business. Because funds <u>may not</u> be used for speculative real estate transactions, if funds are to be used for building acquisition, borrower must occupy at least 50% of the building being acquired.

Eligible Borrower

Small businesses with focus on small minority and women owned businesses.

Service Area

Citywide with focus on the inner N/NE neighborhoods bounded by Broadway, Columbia, 42nd and Greeley.

Loan Program Guidelines

- <u>Loan Amount</u>: Minimum of $25,000 and maximum of $250,000
- <u>Interest Rate</u>: Prime
- <u>Fee</u>: 2% of amount borrowed
- <u>Payments</u>: Principal and interest. Payments may include up to one year of interest only payments based on project underwriting.
- <u>Term</u>: Up to 5 years, but not greater than term of lease plus all options. Borrower must have lease term plus options at the sole discretion of borrow of at least five years.
- <u>Amortization</u>: Up to 10 years; all unpaid principal and interest due at maturity.

- Collateral: Security interest in real property or a blanket UCC filing or both.
- Guarantee: Personal and/or corporate guarantees of all principals and entities with 20% and higher ownership interest in the business.
- Combined Loan-to-Value: Maximum of 100%.
- Repayment Ability: Must demonstrate positive cash flow; combined Debt Coverage Ratio of 1.0 or better.
- Credit: Borrower and principals of company must not have unpaid tax liens or bankruptcies in the last seven years. Any collections, charge-offs or past due payments over 30 days must have written explanation acceptable to PDC.
- Business Management Experience: Borrower must have at least 1 year of business management experience.
- Industry Experience: Borrower must have at least 3 years of industry experience.
- Financial Reporting: Borrower shall provide financial statements on the business and principals on annual basis.
- Job Reporting: Borrower shall provide annual information on jobs created and retained.

ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)

The EDA Loan Fund is a U.S. Department of Commerce program designed to assist new and existing small businesses citywide. The EDA Loan Fund provides financial assistance to small businesses in the form of a loan with a reduced interest rate and longer term to retain and create new employment opportunities that pay competitive wages and benefits.

The program achieves the objectives of 1) bridging the gap in project costs not covered by private financing, 2) increasing the credit-worthiness of marginal clients so they can attain private sector financing, 3) assisting in the creation of wealth within economically distressed communities, and 4) increasing minority and women ownership of businesses citywide.

Eligible Purpose

Funds may be used for working capital, equipment purchase, and commercial building construction, acquisition and tenant improvements for the operation of the borrower's business. Because funds may not be used for speculative real estate transactions, if funds are used for building construction, acquisition and tenant improvements, the Borrower must occupy at least 50% of the building being acquired.

Eligible Borrower

An Eligible Borrower is a business that is unable to obtain adequate funding from a financial institution. The business must provide documentation from a financial institution indicating that the business is unable to obtain all required financing and that without the EDA funds the project may not be financially feasible.

Service Area

Citywide, with emphasis placed on distressed communities.

Job Creation

Minimum of 1 job created or retained for every $25,000 loaned.

Loan Program Guidelines

- Loan amount: Minimum of $25,000 and maximum of$150,000; maximum real estate transaction of $250,000.

- Interest rate: Prime, but not less than 4%

- Fee: 1% of amount borrowed.

- Payments: Principal and interest. Payments may include up to two years of interest only payments based on project underwriting.

- Term: Up to 7 years plus an additional two years for interest only payments based on project underwriting.

- Amortization: Up to 7 years, except for real estate transactions, which may have an amortization period of up to 20 years All unpaid principal and interest due at maturity.

- Guarantee: Personal guaranties of all owners with greater than 10% ownership.

- Collateral: Security interest in real property or a blanket UCC filing or both.

- Combined Loan-to-Value: Maximum of 100%.

- Credit: Borrower and principals of company must not have unpaid tax liens or bankruptcies in the last seven years. Any collections, charge-offs or past due payments over 30 days must have written explanation acceptable to PDC.

- Borrower Contribution: Existing business must inject at least 10% of the project cost or requested loan amount; while start-up business must inject at least 20% of the project cost or requested loan amount.

- Business Management Experience: Borrower must have at least 1 year of business management experience.

- Industry Experience: Borrower must have at least 3 years of industry experience.

- Financial Reporting: Borrower shall provide financial statements on the business and principals on annual basis.

- Job Reporting: Borrower shall provide annual information on jobs created and retained.

- Federal Compliance: Borrowers must comply with requirements that apply to activities financed with Federal funds. These requirements include environmental protection, Davis-Bacon Act and the prohibition on the use of funds by businesses that relocate jobs from one “commuting area” to another.

SMALL CONTRACTORS LOAN INSURANCE PROGRAM (SCLIP)

General Information:

The Small Contractors Loan Insurance Program (SCLIP) is a credit enhancement program that provides partial insurance for lines of credit offered by private lenders to independent construction contractors, with a focus on contractors specializing in energy efficiency and green development projects, in the city of Portland.

The Portland Economic Development Strategy adopted in 2009 identifies four traded sector industry clusters as having the highest potential for growth due to the concentration of firms in the city and a competitive advantage over other industries. Clean Technology (Clean Tech) is one of the strategy's target clusters, and green development and energy efficiency are two promising sectors within the Clean Tech cluster. Large scale retrofit of the existing building stock within the City of Portland is a priority for the Clean Tech sector and enhancing the technical and financial capacity of independent contractors is essential to that effort.

Loan insurance is an effective structure to address this market because the insurance leverages Portland Development Commission's (PDC) investment in the program and relieves PDC of the administrative burden of managing a line of credit product. The insurance structure also allows PDC to scale the program quickly to meet the growing demand for working capital financing among independent contractors in the energy efficiency sector.

Participating Lender:

- A Participating Lender is a lender that has (a) been approved by the PDC Loan Committee and (b) entered into a standard loan insurance agreement with PDC that outlines the rights and responsibilities of the lender and PDC, and details the conditions under which PDC will partially insure repayment of an Eligible Loan made to an Eligible Borrower;

- A Participating Lender may be a bank lender or a non-bank lender targeting underserved credit market niches, including borrowers with barriers to accessing bank credit;

- Participation in the program will be limited based on available resources.

Eligible Borrower:

- Independent contractors working on small construction projects in the city of Portland and holding a city of Portland business license;

- Priority will be given to independent contractors that have difficulty attracting private working capital and are listed as Trade Ally Contractors with the

Energy Trust of Oregon, which indicates a specialization in green development and energy efficiency projects.

Eligible Loan:

- An Eligible Loan is a working capital revolving line of credit with advances to fund expenses incurred in performing construction and energy retrofit projects that (a) has an interest rate and terms comparable to those on other similar products offered by the Participating Lender and reflects current market conditions and (b) has been underwritten according to the Participating Lender's accepted underwriting guidelines for transactions of this type as well as the guidelines for this program.

Service Area:

- City-wide with emphasis on contractors working on projects intended to improve the energy efficiency of existing residential or commercial buildings in the city of Portland.

Job Creation:

- There is not a direct job-to-loan requirement associated with this program.

Program Operation Overview:

- The program provides partial loan repayment insurance to a Participating Lender for an Eligible Loan made to an Eligible Borrower, as approved by PDC;

- ***All Eligible Loans submitted for insurance must be processed, underwritten and approved by a Participating Lender. In order to receive insurance, the Eligible Loan must be submitted by a Participating Lender to PDC for approval;***
- The insurance limit for a loan is the lesser of (a) 50% of the maximum principal amount of the loan or (b) $25,000. For example, a $50,000 loan shall be eligible for up to $25,000 in insurance and a $40,000 loan shall be eligible for up to $20,000 in insurance.

- The insurance is paid on the unpaid outstanding principal amount only. For example, if the borrower has a line of credit for $50,000 but an outstanding balance of only $30,000 at the time of default, the insurance would cover 50% of the outstanding balance or $15,000;

- Loans in excess of $50,000 shall not receive insurance greater than $25,000;

- PDC's insurance percentage will decline over time, starting at 50% at closing (to a maximum of $25,000), declining to 25% at the beginning of the second year (to a maximum of $12,500), and 0% at the beginning of the third year;

- The aggregate PDC insurance for all loans of a Participating Lender shall not exceed $300,000 at any time, regardless of the number of Eligible Loans of a Participating Lender insured under the program;

- The Participating Lender shall pay PDC a non-refundable insurance fee equal to 2% of the insurance amount for each loan insured.

- A Participating Lender may use this program in conjunction with any other federal or state loan guarantee or insurance program, but the Participating Lender must have a minimum of 25% of the loan amount unguaranteed or uninsured during the term of the loan;

- Upon default, the Participating Lender shall use its established loan collection methods to collect on the debt before it seeks payment under PDC's loan insurance. A loan must be must have been formally declared in default by the lender and a minimum of 90 calendar days elapsed from date a default was declared before the lender can seek payment under PDC's loan insurance;

- Subject to satisfaction of the program requirements, the lender shall receive from PDC the current insured percentage (either 50% or 25%) of the outstanding principal amount of a defaulted insured loan, up to $25,000 per borrower;

- Any amount the Participating Lender collects on a loan after a loan is declared in default and PDC has paid the insurance benefit to the Participating Lender shall, after deduction of the Participating Lender's unreimbursed collection costs, be shared between the Participating Lender and PDC based on the insurance percentage in effect at the time the insurance benefit was paid; and

- PDC and the Participating Lender shall each be responsible for its own expenses incurred in the administration and collection of any amounts due under the loan. In event of default, any collection, legal, and other expenses incurred by the lender shall be the responsibility of the borrower and the lender. PDC shall not be responsible for reimbursing any such expenses.

Eligible Loan Guidelines:

Loans originated under SCLIP will be underwritten and administered by the Participating Lender. Participating Lenders shall underwrite each Eligible Loan and are expected to follow the accepted underwriting procedures established by the Participating Lender for these loans, recognizing that the PDC insurance will allow the Participating Lender to assume a higher level of risk than with an uninsured loan. As part of its underwriting process, the Participating Lender shall, at a minimum, confirm that:

- The borrower has the ability to repay any advances under the line through payments for work performed or other cash flow;
- The loan is personally guaranteed by the principals of the borrower and, to the extent considered necessary by the Participating Lender, is secured by collateral;
- Borrower and principals have a credit history that is consistent with or better than other similar borrowers in the Participating Lender's portfolio;
- Principals of the borrower have demonstrated industry experience and a history of completing projects on time and within budget; and
- The borrower has contracts or orders to provide construction or retrofit services.

As part of the Participating Lender's submission to PDC for insurance, a loan report containing the following information, to PDC's satisfaction, shall be included:

- Date;
- Name of Borrower;
- Business Location;
- Action Requested;
- Purpose;
- Company History;
- Industry Experience of Principal;
- Loan Information including terms;
- Loan Rating Criteria;
- Repayment Ability;
- Credit;
- Collateral, if any;
- Strengths;
- Weaknesses;
- Rationale for endorsing the loan; and
- Conditions for Approving the Loan, if any.

Loan Insurance Decision:

Loans submitted to PDC for insurance shall be reviewed by Business Finance staff to determine if the loan is an Eligible Loan to an Eligible Borrower and otherwise meets program guidelines and to determine if the underwriting is sound. The Business Finance Manager will recommend any insurance requests for approval or denial, and the Business & Industry Division Manager shall approve or deny all insurance requests.

When a request for insurance is approved, a loan insurance authorization letter shall be issued by the Business Finance Manager of PDC to the Participating Lender with copies provided to the Loan Servicing Division Manager and Senior Accounting Manager. If the request is denied, a letter will be provided to the Participating Lender stating specific reasons for denial.

Project Reporting:

On a quarterly basis, each Participating Lender will provide a written report to PDC's Business Finance Manager on the status and performance of all of the Participating Lender's loans insured under the program. This report shall include a list of the projects completed or in progress by the borrower location of such projects, the total project/contract cost, and a brief description of the job being performed on each project.

At the end of each quarter, the Business Finance Manager shall prepare a summary of the performance of the program, highlighting any potential defaults, and present this summary to the PDC Loan Committee.

Program Fund Source:

The program will be funded solely by eligible sources of funds, including Federal and other sources of funds that can be used to insure private working capital loans.

Marketing of Program:

Participating Lenders will work with PDC to market the program as a joint initiative in meeting the business needs of small contractors working on green development and energy efficiency projects.

Performance Measurement:

PDC seeks to achieve a default rate of 10% or less within the first two years of the program and a default rate of 5% thereafter for the non-Clean Energy Works Program contractors.

PDC
PORTLAND DEVELOPMENT COMMISSION

Resolution Number 6788

Title:

ADOPTING UPDATED BUSINESS FINANCE PROGRAM FINANCIAL GUIDELINES

Adopted by the Portland Development Commission on April 28, 2010.

PRESENT FOR VOTE	COMMISSIONERS	VOTE		
		Yea	Nay	Abstain
☒	Chair Scott Andrews	☒	☐	☐
☒	Commissioner Bertha Ferrán	☒	☐	☐
☒	Commissioner John Mohlis	☒	☐	☐
☒	Commissioner Steven Straus	☒	☐	☐
☒	Commissioner Charles Wilhoite	☒	☐	☐

☐ **Consent Agenda** ☒ **Regular Agenda**

Certification

The undersigned hereby certifies that:

The attached resolution is a true and correct copy of the resolution as finally adopted at a Board Meeting of the Portland Development Commission and duly recorded in the official minutes of the meeting.

Renee A. Castilla

Renee A. Castilla, Recording Secretary

Date: June 16, 2010