

**DATE:** March 9, 2016  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 16-12

Authorizing Terms for a Grant to the Portland Economic Investment Corporation and an Intergovernmental Agreement with Multnomah County for Investment in the Inclusive Startup Fund

**BOARD ACTION REQUESTED**

Adopt Resolution No. 7172.

**ACTION DESCRIPTION**

These proposed actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to (i) execute a Grant Agreement (PEIC Grant) with the Portland Economic Investment Corporation (PEIC), and (ii) execute an Intergovernmental Agreement (IGA) with Multnomah County (County). The PEIC Grant will allow PDC to provide \$1,050,000 to PEIC for the purpose of investing in and administering the Inclusive Startup Fund (ISF). The IGA will allow the County to contribute \$500,000 to PDC in support of the ISF. If approved, these two actions will provide significant resources to the ISF, whose primary goal is to invest in early-stage startups founded by women and members of disadvantaged communities of color in the Portland metropolitan region.

PEIC, an independently-managed non-profit organization with a mission to invest in economic development in the Portland region, will partner with Elevate Capital, a private fund management entity, to manage and administer the ISF. In addition to the PDC and County commitments, the State of Oregon (State) intends to commit \$250,000 for the ISF through PEIC. To complement the public resources invested in the ISF, Elevate Capital has committed to raise matching private funds, ultimately resulting in an ISF balance of approximately \$3,000,000. A diagram of the transactions involved with the establishment of the ISF is depicted in Attachment A.

**BACKGROUND AND CONTEXT**

As described in an informational item on the March 9, 2016, PDC Board agenda (see Report 16-11), the ISF is an integral part of PDC's inclusive entrepreneurship strategy. Broadly speaking, the goal of this inclusive entrepreneurship work is to make Portland nationally recognized as a leader in supporting and cultivating high-growth entrepreneurs from traditionally under-represented populations. The ISF is one of four high-profile initiatives to advance this important work; the others, which are described in detail in Report 16-11, are:

1. Microenterprise and Small Business Development Program
2. Project Increase
3. Startup PDX Challenge

The ISF is unique from these other three initiatives in that it is intended to address the disparity in access to financial resources faced by startups owned by people of color and women. This challenge, which faces under-represented populations across the country, is acutely felt in Portland. A recent scan of the local entrepreneurship community confirmed the access gap for under-represented populations. Of the 114 venture capital deals in Portland the last two years, beneficiary companies were founded or led by at least one white male 96 percent of the time. By contrast, only 19 percent female, 10 percent Asian American and East Indian, two percent African American, and one percent Latino<sup>1</sup>.

The ISF will invest capital in amounts ranging from \$25,000 to \$75,000 to approximately 30 companies over the course of five years. Each startup company that the ISF invests in will have at least one founder or executive level leader that identifies as female, African American, Latino/a, Asian American, Native American, or other under-served minority. The following goals are intended to guide the portfolio makeup:

- African American and/or Latino/a: 40 percent or more of all founding teams
- Women: 40 percent or more of all founding teams
- Native American, Asian American, and other under-served groups: 20 percent or more of all founding teams

Elevate Capital will be expected to submit semi-annual reports to PEIC, which will then report to PDC, the County, and the State. These reports will address the following information:

- Number of businesses receiving funds from ISF and amount of investment each business received
- Location of funded businesses
- Industry of businesses
- Manner in which businesses meet requirement to have at least one founder considered an under-served minority
- Diversity of each startup's management team
- Jobs created since initial ISF investments
- Number of successful exits
- Investment returns including proceeds from exits and repays and realized gain and loss
- Additional capital raised by participant businesses
- High level summary of each portfolio company's operating performance

Elevate Capital will perform the duties traditionally associated with the general partner in a venture capital fund: source deals, make investment decisions, organize a formal mentoring program, manage investments, and generate returns. In addition, Elevate Capital will be responsible for raising matching capital to leverage the public sector contribution. Elevate Capital will be expected to raise additional commitments to bring the total initial capital to \$3,000,000. Elevate Capital's strategy to fundraise will target both high net worth individuals and foundation investment and/or program-related investment dollars.

It is anticipated that the ISF will be structured using a standard for-profit partnership structure in which Elevate Capital serves as the general partner and investors (PEIC or its agent) serve as limited partners. The ISF will have operating characteristics similar to other venture funds, including a fixed life term, carried interest, management fees, an investment committee, and a board of advisors. Elevate Capital

---

<sup>1</sup> These percentages speak to only one member of a founding team; therefore one team can be double-counted in these percentages.

has already shared assumed management fees and carried interest with an advisory committee, and PDC staff consulted with local investment professionals to ensure that the proposed management fees and carried interest are consistent with industry standard for a fund of its size and purpose.

Since the ISF is one of only a few such investment funds in the country, Elevate Capital believes that demonstrating early investment success will help prove the model for potential investors and assist in raising the remaining private capital. Consequently, Elevate Capital intends to commence investments utilizing \$500,000 in late March or early April 2016. The capital contribution for the initial investment will be \$250,000 in public funds and up to \$250,000 of private capital raised by Elevate Capital.

PEIC shall retain all returns from ISF and shall further employ those returns in local economic development efforts and continued support to the under-represented populations served by the ISF.

### **COMMUNITY AND PUBLIC BENEFIT**

If approved by the PDC Board, the ISF will offer an opportunity for PDC to play an innovative role in efforts to boost inclusive entrepreneurship. The public resources provided to PEIC will offer an opportunity to offer critical funding for early-stage startups founded by women and members of disadvantaged communities of color in the Portland metropolitan region. In addition, should the startups succeed and PEIC realize a return on its investment, PEIC will be able to invest those returns into other shared community economic development initiatives.

### **PUBLIC PARTICIPATION AND FEEDBACK**

While PDC staff have not conducted public participation specific to the PEIC Grant or the IGA, PDC has relied on extensive partner feedback on the creation of the ISF. In addition, staff from PDC, the County, and the State convened an advisory committee to evaluate responses to a competitive Request for Information process; the advisory committee ultimately recommended selecting Elevate Capital from a pool of six proposals.

Additionally, PDC staff has gained insight into the challenges of minority entrepreneurs through the Startup PDX Challenge, Project Increase, and by furthering partnerships and relationships with minority affinity groups that support women and people of color. These stakeholders have emphasized the need for access to early seed capital and mentoring relationships, as founders from under-served communities often do not have the networks or the access to wealthy individuals to fund and support the early stages of their businesses.

### **BUDGET AND FINANCIAL INFORMATION**

PDC's fiscal year (FY) 2015-16 General Fund budget includes \$550,000 for the PEIC Grant (see Attachment B). PDC staff will request that the PDC Board approve FY 2015-16 Budget Amendment No. 2 at their March 9, 2016, meeting; this amendment includes adding the \$500,000 from the County to the General Fund budget.

### **RISK ASSESSMENT**

PDC's financial assistance to PEIC for ISF is in the form of a grant and is not designed to generate a direct return to PDC or the other public agencies but is designed to potentially generate returns for the use of PEIC. The most successful outcome from the ISF effort would generate both a disparity correction for under-represented startup businesses as well as a healthy return to PEIC. However, Elevate Capital will make risky investments in startup businesses and there is potential for low return to PEIC, no return to PEIC, or loss of the ISF. Losses to the ISF do not pose financial risk to PDC beyond the allocated PEIC Grant amount. To mitigate for risk, the disbursement of 80 percent of the public cash investment from

PEIC to Elevate Capital is delayed for one year. The release of \$1,000,000 in 2017 must also be approved by the public agencies after review of Elevate Capital's efforts to attract private matching funds.

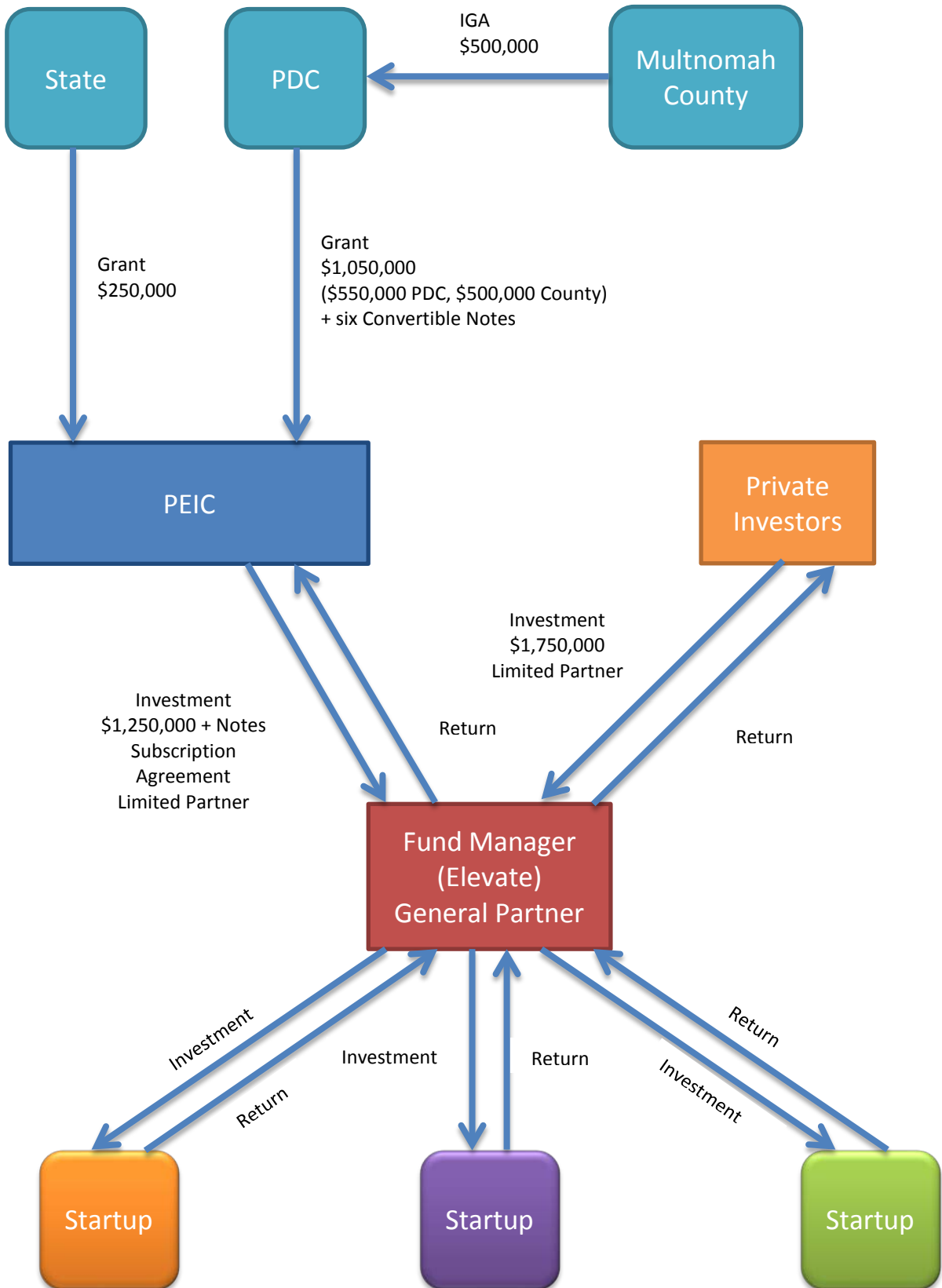
**ALTERNATIVE ACTIONS**

The PDC Board could elect to grant the investment amount to a different entity than PEIC. However, if the grant were provided to a different entity, it is unlikely that any returns would be reinvested solely in addressing public goals, as they would through an organization such as PEIC.

**ATTACHMENTS**

- A. Diagram of the ISF Structure
- B. PDC FY 2015-16 General Fund Budget

**DIAGRAM OF THE ISF STRUCTURE**



**PDC FY 2015-16 GENERAL FUND BUDGET**

**Five-Year Forecast Program Requirements Detail**

	Revised-3 FY 2014-15	Revised FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
<b><u>PDC General Fund</u></b>						
<b>Resources</b>						
Beginning Fund Balance	-6,267	148,624	0	0	0	0
Fees and Charges	1,500	1,500	0	0	0	0
Intergovernmental Revenues	4,081,785	7,027,486	5,293,361	5,356,218	5,429,176	5,505,798
Loan Collections	69,388	136,704	68,067	57,986	48,815	0
Transfers In	6,267	0	0	0	0	0
<b>Total Resources</b>	<b>4,162,873</b>	<b>7,314,314</b>	<b>6,381,428</b>	<b>6,414,204</b>	<b>6,477,891</b>	<b>6,606,788</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Business Development</b>						
<b>Business Lending</b>						
L04100101 SBLF-General_GEN	154,065	158,143	158,148	158,148	158,148	158,148
<b>Small Business &amp; Community Dev</b>						
B55003101 Community Dev Fund	0	891,000	0	0	0	0
B55060101 Small Business Technical-GEN	859,544	897,548	798,373	798,373	798,373	798,373
B55540101 NPI & Main St Network-GEN	515,975	512,069	474,167	474,167	474,167	474,167
B55935101 Venture Portland-GEN	402,993	347,013	311,023	311,023	311,023	311,023
E10110101 Workforce/Sm Business	0	1,100,511	1,098,918	1,094,188	1,086,804	1,079,084
<b>Traded Sector Business Dev</b>						
B15105101 Business Recruitment-GEN	5,000	0	0	0	0	0
B15001101 Adv Mfg - Cluster Dev	80,837	91,300	80,000	80,000	80,000	80,000
B15104101 Mayor's Innovatn Funds-GEN	23,000	58,709	0	0	0	0
B15130101 International Business Dev-GEN	124,800	100,500	80,000	80,000	80,000	80,000
B15301101 Green & Clean - Cluster Dev	191,013	66,300	80,000	80,000	80,000	80,000
B15505101 Inclusive Capital Fund	0	550,000	0	0	0	0
B15601101 Athletic - Cluster Dev	56,150	87,050	80,000	80,000	80,000	80,000
B15610101 Film/Video-GEN	20,000	11,750	20,000	20,000	20,000	20,000
B15620101 Entrepreneurial Dev-GEN	140,000	201,040	208,534	216,186	300,000	300,000
B15630101 Greater Portland-GEN	100,000	100,000	100,000	100,000	100,000	100,000
B15701101 Software - Cluster Dev	60,500	230,900	80,000	80,000	80,000	80,000
B15100101 Cluster Development-GEN	26,864	30,826	30,132	30,132	30,132	30,132
<b>Total Business Development</b>	<b>2,780,741</b>	<b>6,434,768</b>	<b>3,688,286</b>	<b>3,802,217</b>	<b>3,878,847</b>	<b>3,870,827</b>
<b>Total Program Expenditures</b>	<b>2,780,741</b>	<b>6,434,768</b>	<b>3,688,286</b>	<b>3,802,217</b>	<b>3,878,847</b>	<b>3,870,827</b>
Personal Services	1,030,394	1,280,289	1,380,516	1,437,317	1,421,177	1,492,236
Transfers - Indirect	290,650	312,439	313,550	316,684	329,352	342,635
<b>Total Fund Expenditures</b>	<b>4,081,786</b>	<b>7,027,487</b>	<b>6,283,381</b>	<b>6,368,218</b>	<b>6,429,178</b>	<b>6,606,788</b>
Contingency	0	148,624	0	0	0	0
Operating Transfers Out	70,888	138,203	68,067	57,986	48,815	0
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>4,162,873</b>	<b>7,314,314</b>	<b>6,381,428</b>	<b>6,414,204</b>	<b>6,477,891</b>	<b>6,606,788</b>