

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: January 11, 2012

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 11-79
Authorize an additional grant to Oregon Entrepreneurs Network in the Amount \$200,000 to support the Portland Seed Fund

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6916

ACTION SUMMARY

This action will authorize an additional \$200,000 grant to Oregon Entrepreneurs Network (OEN) to support further capitalization of the Portland Seed Fund. PDC provided a previous grant of \$500,000 to OEN to assist in the initial capitalization of the Portland Seed Fund (Fund).

The City of Portland (City) and the Portland Development Commission (PDC) seek to further capitalize the Fund to invest in early stage businesses. The Fund makes investments of between \$25,000 and \$100,000 in start-ups at the earliest stage of development. The Fund provides funding in the most critical gap for growing companies, increasing the job creation prospects for start-up firms and the pipeline of viable companies for later stage investors. This funding will ensure at least four funding classes will take place. It also ensures adequate funds will be available for additional follow-on funding for the most promising of the firms that complete a funding class.

PUBLIC BENEFIT

Despite the prevalence of small business activity in the Portland region, the supply of capital for early-stage companies has been limited. This is a result of a lack of an institutional mechanism for providing seed capital as well as a migration by investors, including angels, toward funding later stage companies. This lack of predictable seed capital has created a barrier for most entrepreneurs. Entrepreneurs need this funding to move their ideas to proven concepts with market potential.

Companies in the initial phases of their company life-cycle face long odds in growing a successful business. Funding during the initial phases is essential to many businesses. Communities where funding is available have an advantage over other communities at developing and retaining successful start-up companies. The lack of seed funds ultimately diminishes the prospects Portland will be home to frequent entrepreneurial successes and significant job and wealth creation.

Developing a structured institutional funding source provides funding to these companies and adds a degree of confidence to other investors who may now be more willing to make investments.

By improving the conditions for survival in the concept stage, the Fund is expected to continue to grow the pool of viable start-ups that win later stage funding and, ultimately, commercial success.

Financial assistance to the Fund will support entrepreneurship and job creation and retention of current area residents. An economic development emphasis on assisting current firms at a point in their life cycle where they need assistance the most has the opportunity to benefit area residents by:

- Supporting job creation and retention;
- Retaining and increasing the tax base;
- Increased multiplier effects in the region which will flow into other industries and firms (generally, local firms have greater economic ties to a region than national/international firms);
- Supporting unique economic characteristics of Portland including targeted cluster firms;
- Further aligning the economic development approach to Portland's independent culture where small business account for 95% of all Portland's businesses, sixth highest ratio in the United States.

The Fund has already shown some signs of success: 128 businesses applied for admission into the first round of funding, where eight were chosen. The initial funding class graduated on November 2, 2011. Graduation includes funding as well as a three-month mentor cycle and the opportunity to interact with other entrepreneurs and mentors. The funding class culminates with Demo Day, where each firm presents their product to mentors, angel investors, venture capitalists, potential partner companies and potential acquiring companies. News and media outlets have run multiple stories on the Fund in the past year bringing attention to the Fund and PDC's efforts to stimulate the local economy.

This action will support the following PDC goals:

- Strong Economic Growth and Competitiveness
- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

No direct public participation has taken place in the development of this supplemental grant.

However, the initial PDC grant to the Fund was presented in front of numerous public audiences beginning in February 2010 with the Mayor's announcement of the concept in his State of the City address.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

One of the themes of the City's Economic Development Strategy is the importance of innovation and entrepreneurship in driving job creation and economic growth in the local economy. The Fund seeks to support this strategy by improving the conditions for entrepreneurs and start-ups in the initial stages of their development. The success of PDC's financial assistance to the Fund will be measured against the following metrics:

- Job creation;
- Investment capital leveraged and venture capital attracted to the region;
- Investment returns and successful exits;
- Experienced entrepreneurs attracted to and retained in the region.

Over 95 percent of Portland's businesses have fewer than 50 employees, and the majority of new jobs are created by new or expanding small firms. Measured by new business formation, the Portland metropolitan region is ranked sixth nationally for entrepreneurial activity.

The action is consistent with the Economic Development Strategy's focus on supporting entrepreneurship in Portland. These funds will directly support objective 3.1 of the Economic Development Strategy; Objective 3.1: "Build the capacity of local entrepreneurs to innovate and compete in the global economy through the establishment of an economic gardening program."

FINANCIAL IMPACT

This \$200,000 grant will be funded by PDC's General Fund Allocation in Fiscal Year 2011-2012 and has been included in the budget (see Attachment A). PDC has no obligation to provide additional grants to support the Fund but may consider doing so based on the success of the Fund in achieving job creation and firm growth outcomes. PDC is in discussion with Fund managers about allocating up to an additional \$100,000 to further support the Fund and allow Fund managers to significantly increase their capacity. PDC will return to the Board once a business plan is further developed by Bridge City Ventures.

RISK ASSESSMENT

PDC's financial assistance to the Fund is in the form of a grant and will not be repaid. While the Fund will make risky investments in start-up businesses, losses to the Fund do not pose risk to PDC beyond the allocated grant amount. When successful investments occur, PDC's portion of the economic returns will be returned to the Fund and used for additional investments.

WORKLOAD

This project is identified in the existing work plan of PDC staff. Additional staff time beyond time allocated in the work plans is not anticipated.

ALTERNATIVE ACTIONS

The PDC Board could choose not to authorize the additional \$200,000 grant to OEN to provide additional capital to the Fund. This will reduce the capacity of the Fund to recruit other potential investors. It may also limit the Fund's scope and ability to complete four investment classes with adequate follow-on investment resources.

Due to legal limitations, an equity fund managed by PDC was not possible. However, PDC could choose to operate a debt capital fund with similar objectives. Feedback from the entrepreneurial community indicated that early stage companies want the option of receiving equity investments. In addition, PDC does not possess the internal expertise to manage a risk capital fund. Lastly, by providing capital to a private fund, PDC will leverage its investment with capital from other public and private parties.

CONCURRENCE

PDC's Financial Investment Committee will be reviewing on January 6, 2012.

BACKGROUND

OEN is using the initial \$500,000 grant from PDC to fund a limited partnership investment, along with other limited partners, in the Portland Seed Fund and to cover certain limited third party costs. These limited partnership investments are the mechanism through which the Fund raised its capital for investment in early stage businesses. The Fund Manager for Portland Seed Fund is Bridge City Management, LLC and manages the investment decisions of the Fund.

In addition to the \$500,000 grant to OEN, PDC also provided a grant of \$40,000 directly to Bridge City Management, LLC to fund the establishment and initial operations of the Fund. This served as an operating grant for the fund.

The \$500,000 grant was used to raise additional funds, which totaled more than \$1,500,000. Some of these funds were used to fund investments in businesses in the first of four investment classes. The initial class funded eight firms and was completed November 2, 2011. Each investment class is 90 days long, provides seed capital to the participants, the opportunity to work with mentors, and a public "Demo Day". Applications for the second funding class were due January 2, 2012.

With an additional investment of \$200,000 the Fund Managers expect the total funds received for investment to exceed \$3,000,000. By raising a cumulative total of \$3M, the Fund will be able to offer three additional Portland Seed Fund classes. The total number of firms funded by the Fund through four investment classes will be approximately 30-40. In addition, sufficient funds will be available for follow-on investment in the most promising Fund graduates.

Annual fund reports are provided by Bridge City Management LLC. These reports are provided to the PDC Commission and Portland City Council in addition to a range of stakeholders regarding fund performance and economic impact of the companies receiving

fund investments. The report includes a description of activity that has occurred as well as the following metrics: job creation, investment capital leveraged and investment returns. Additionally, Bridge City Management LLC provides written quarterly reports to PDC staff to review.

ATTACHMENTS:

- A. Financial Summary

FINANCIAL SUMMARY

Five-Year Forecast Project Requirements Detail

	FY 2011-12	FY 2011-12
<u>Urban Redevelopment Fund</u>	Ongoing	One-Time
Resources		
Beginning Fund Balance	0	0
Intergovernmental Revenues	2,601,261	3,147,268
Loan Collections	0	0
Reimbursements	0	0
Transfers In	0	0
Total Fund Resources	2,601,261	3,147,268
Requirements		
Program Expenditures		
Business Dev		
B15100101 Cluster Development-GEN	243,634	452,203
B15105101 Business Recruitment-GEN	284,000	75,000
B15106101 Catalytic Initiatives-GEN	375,000	0
B15130101 International Business Dev-	0	205,000
B55500101 Business Services-GEN	0	65,000
B55540101 Econo Progress Initiative-	0	242,065
B55600101 Entrepreneurial Dev-GEN	0	150,000
B55935101 APNBA-GEN	282,245	0
L04100411 Portland Seed Fund	0	500,000
E10610000 Technical Assistance Contracts	1,416,382	158,000
L91119101 NEF-Nbrhood Ec Dev-GEN	0	200,000
T03014101 SBDC-Small/Neigh Tech	0	600,000
Business Dev Total	2,601,261	2,647,268
Property Redev		
G07100101 MAIN-General-GEN	0	500,000
Property Redev Total	0	500,000
Total Program Expenditures	2,601,261	3,147,268
Personal Services		
Transfers - Indirect	0	0
Total Fund Expenditures	2,601,261	3,147,268
Operating Transfers Out		
Ending Fund Balance	0	0
Total Requirements	2,601,261	3,147,268