

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: April 28, 2010
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 10-39
Adopt Updated Business Finance Program Financial Guidelines

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6788

ACTION SUMMARY

This action will adopt updated guidelines for the Business Finance Program and further enhance the Portland Development Commission's (PDC's) effectiveness in the support of businesses throughout the city.

The Portland Economic Development Strategy (Strategy), adopted in 2009 by City Council, emphasized the strategic use of PDC resources to create jobs with focus on "strong Economic Growth and Competitiveness," while applying the "Effective Stewardship over our Resources and Operations." The Strategic Plan 2010 has the following as key actions:

- Prioritize existing business finance programs to support the growth of clusters and high growth firms across all sectors; and
- Expand the range and diversity of PDC's business finance products to fill the most critical gaps in the local business financial market.

In order to meet the demands of the financial market and be effective in the strategic use of public funds, the Business Finance products have been revamped and new guidelines have been proposed to guide the work of the Urban Development Department.

New Financial Products Summary:

Business Incentive Fund: Three Tax Increment Fund programs (Quality Jobs Program, Economic Opportunity Fund, and Direct Tax Increment Fund) merged into one product. This program is focused on the creation and retention of jobs in Portland's urban renewal areas.

Business Development Loan Fund: Two working capital and equipment purchase loans (Economic Development General Loan Fund and Near Equity Fund) merged into one product. This program is designed to assist Target Cluster and High Growth businesses.

Small Business Loan Fund: Previously known as North/Northeast Business Assistance Program, also called Hatfield Loan Fund, this program is extended citywide with focus on small businesses, women and minority owned businesses.

Economic Development Administration: This is a federal loan program administered by PDC. The program remains unchanged; it is managed through the Loan Fund Management and Administrative Plan. This program is designed to support small and minority owned businesses that are unable to secure adequate traditional financing.

Small Contractors Loan Insurance Program: This program has already been approved by the PDC Board of Commissioners (Board). This is a credit enhancement program that provides partial insurance for lines of credit offered by private lenders to independent construction contractors in the city of Portland, with a focus on contractors specializing in energy efficiency and green development projects.

PUBLIC BENEFIT

The Business Finance Program supports businesses citywide with special attention to small businesses. It also enhances the cluster work to promote job creation and retention, healthier neighborhoods, and expansion of the tax base through gap financing and leveraging of public resources.

This action will support the following PDC goals:

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

PUBLIC PARTICIPATION AND FEEDBACK

The 2009 PDC customer survey showed a strong 96 percent satisfaction with the Business Finance Program, yet there were comments about the need to make the Business Finance Program more transparent with loan terms and interest rates clearly defined in our marketing materials.

Also, several meetings have been held among PDC Business Finance staff, as well as the Finance ReThink team (which consists of members of the Executive team as well as Senior Managers), to review the financial products and come up with the appropriate tools that would address the market needs while meeting the objectives of the Strategic Plan 2010.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The updated financial guidelines will continue to support and improve the work of the Business Finance Program, and will help staff to be efficient in the use of public resources

while effectively supporting businesses citywide. The Business Finance Program guidelines appropriately support the provisions of the Strategic Plan 2010.

FINANCIAL IMPACT

The improved guidelines will not have adverse financial impact on PDC; rather by tying the interest rate to Prime, the public may realize an upswing in interest income as the economy improves and Prime rate goes up.

In addition, by discontinuing the grant program (Economic Opportunity Fund), PDC will save approximately \$10 million over the next five years – money that would have been disbursed as grants without any direct financial return on investment.

RISK ASSESSMENT

The Business Finance staff will continue to analyze and carefully underwrite loans as it has been doing for several years, applying prudent underwriting techniques, critical analysis, and generating sound reports backed by full documentation.

WORK LOAD IMPACT

No additional staff will be needed to continue to implement the Business Finance Program.

ALTERNATIVE ACTIONS

The Board can elect not to replace the existing guidelines at this time. If the Board chooses not to replace the existing guidelines, staff would continue to use the approved temporary guidelines through June 30, 2010, and thereafter revert to the suspended guidelines that are not aligned with market needs and the Board directives, or extend the temporary guidelines for a period of time.

The proposed guidelines would increase the effective use of Business Finance resources while achieving the objectives of PDC with a better return on investments.

CONCURRENCE

The Finance ReThink team has been chartered and charged by the Board to assess PDC's financial products and determine if the right suite is offered given today's needs and demands, evaluate guidelines for each product, and recommend other financial products where appropriate. It is based on the recommendations of the team that the guidelines of the Business Finance products are being revamped to meet the demands of the day.

BACKGROUND

In 2007, the PDC 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.

On March 11, 2009, in response to the credit crunch and other financial challenges on the market, the Board suspended the financial guidelines authorized by Resolutions No. 6444 and No. 6501, and adopted Resolution No. 6683.

During that period, the Finance ReThink Team was established and empowered to review the financial products offered by PDC and propose recommendations. The Business Finance Program Financial Guidelines (see Exhibit A to the accompanying Resolution) came out of the work of the team, and they cover the following financial products administered through the Business Finance Program:

- Business Incentive Fund (BIF);
- Small Business Loan Fund (SBLF);
- Business Development Loan Fund (BDLF);
- Economic Development Administration (EDA); and
- Small Contractors Loan Insurance Program (SCLIP)

The Small Contractors Loan Insurance Program was authorized by the Board on January 27, 2010, Resolution No. 6766.