

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: May 11, 2011
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 11-35
Adopt Small Business Loan Insurance Program Guidelines

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6870

ACTION SUMMARY

This action will change the name of the Small Contractors Loan Insurance Program (Existing Program) to **Small Business Loan Insurance Program** (Revised Program) and adopt revised guidelines for the program. The revisions expand borrower eligibility in order to enhance the Portland Development Commission's (PDC) strategy to support small 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 ... and healthy neighborhoods with wealth creation" with "Effective Stewardship over our Resources and Operations." And the 2010 PDC Strategic Plan (Strategic Plan) identifies the following as key actions to implement the Strategy:

- 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 Existing Program was established exclusively to support small construction contractors providing services in the Clean Tech Cluster. But the need for working capital among other small businesses continues to remain high, making expansion of the program, to serve small businesses throughout the city, a priority.

PUBLIC BENEFIT

The Revised Program supports small businesses citywide with special attention to businesses that fall within one of the following PDC defined categories: Industry Clusters, High Growth, or Neighborhood Economic Development. It enhances PDC's goals to promote job creation and retention, healthier neighborhoods, and the leveraging of public resources.

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

Ongoing discussions with financial institutions and small business owners affirms the need for small business working capital to address market needs, while meeting the objectives of the Strategic Plan. Within the last three months, staff has spoken with credit administrators and branch managers of five local banks and two community economic organizations. They have all affirmed that there is a market need for a small business working capital line of credit; they have also indicated that they will consider participating as lenders in the Revised Program when it becomes available.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Revised Program will support small business citywide and continue to improve the work of the Business Finance Program and help staff be efficient in the use of public resources. The Revised Program is consistent with the Strategy and the Strategic Plan.

FINANCIAL IMPACT

The Revised Program will not have an adverse financial impact on PDC. Rather, by expanding the range of eligible borrowers, the Revised Program will fill a gap that continues to persist in the financial market. However, the Revised Program will expand the amount of resources reserved for the Revised Program. In FY 2010-11, the Existing Program required \$150,000 from Fund 463 to be reserved for potential claims. In the FY 2011-12 proposed budget, the Revised Program will increase this reservation to \$300,000 for potential claims. The full amount must remain in a restricted cash account and cannot be utilized for other financial assistance programs while the Revised Program is in effect. The financial summary is included as Attachment A.

By broadening the range of eligible borrowers, PDC's administrative cost is minimized while effectively leveraging PDC's small business resources.

RISK ASSESSMENT

The Business Finance staff will diligently analyze the loans that have already been underwritten by financial institutions and submitted to PDC for approval, by applying prudent underwriting techniques.

WORK LOAD IMPACT

No additional staff will be needed to implement the Revised Program.

ALTERNATIVE ACTIONS

Staff could continue to use the Existing Program restricted to small construction contractors involved in green projects; however, staff has found that this program could be better aligned with market needs. The proposed Revised Program would increase the effective use of the loan insurance program while achieving the PDC's objectives.

CONCURRENCE

The PDC Finance ReThink team was charged by the Commission to: 1) Assess PDC's financial products and determine if the right suite is offered given today's needs and demands; 2) Evaluate guidelines for each product; and 3) Recommend other financial products as appropriate. It is based on the recommendations of the Finance ReThink team that the financial product was established, however, it was restricted to small independent construction contractors specializing in energy efficiency and green development projects. The expansion of the program to include all small businesses in the city of Portland will help meet the financial needs of small businesses citywide.

The proposed Revised Program was discussed and supported by the Financial Investment Committee in April 2011.

BACKGROUND

In January 27, 2010, the Board approved the Small Contractors Loan Insurance Program (Resolution No. 6766). It is a credit enhancement program that was established to provide partial insurance for lines of credit offered by private lenders. The goal was to serve independent construction contractors, with a focus on small contractors specializing in energy efficiency and green development projects in the City of Portland.

To date, we have had only one loan approval through Albina Community Bank (that the contractor later declined) despite extensive marketing outreach efforts to a wide audience, including individual small contractors expected to need a working capital line of credit.

The contractors that requested PDC to establish a small contractors program to address the issue of a lack of working capital line of credit have all backed away from using the product.

Staff have not been able to ascertain the reason(s) why the line of credit has not been accessed, but speculate that it is the “relationship banking” model adopted by banks as a result of the current economic condition that has made the program unpopular. To help PDC achieve its objective in supporting small businesses, staff have made the following recommendations:

- Change of the program name from Small Contractors Loan Insurance Program (SCLIP) to **Small Business Loan Insurance Program (SBLIP)**; and
- Expand the eligible borrow criteria of the program and make it a credit enhancement tool to cover working capital loans made by PDC leveraging partners to small businesses including small construction contractors.

Significant changes to the program:

- 1) Broadening the eligibility criteria to include all small businesses, businesses with less than 50 employees;
- 2) Authorize the Executive Director to increase the dollar limit on insurance under the Revised Program for a participating lender from \$300,000 to an amount not to exceed \$500,000, if warranted and funds are available; and
- 3) Program name change and updated guidelines and supporting documents.

ATTACHMENTS:

- A. Fund Financial Summary

Five-Year Forecast Project Requirements

FY 2009-10 FY 2010-11 FY 2011-12 FY 2012-13 FY 2013-14 FY 2014-15

Business Assistance Loan Fund

Resources

Beginning Fund Balance	534,228	306,013	0	0	0	0
Loan Collections	247,846	540,000	0	0	0	0
Total Fund Resources	782,074	846,013	0	0	0	0

Requirements

Program Expenditures						
Business & Industry						
High Growth						
H79020 Business Finance	68,607	61,750	0	0	0	0
Industry Cluster						
H72030 Neighborhood Economic Development	0	150,000	0	0	0	0
H79020 Business Finance	205,822	188,250	0	0	0	0
Neighborhood Economic Development						
H72030 Neighborhood Economic Development	50,000	25,000	0	0	0	0
Business & Industry Total	324,429	425,000	0	0	0	0
Total Program Expenditures	324,429	425,000	0	0	0	0
Personal Services	11,115	26,813	0	0	0	0
Transfers - Indirect	84,132	78,324	0	0	0	0
Total Fund Expenditures	419,676	530,137	0	0	0	0
Contingency	275,381	315,876	0	0	0	0
Transfers Out	87,017	0	0	0	0	0
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	782,074	846,013	0	0	0	0