

DATE: March 8, 2017
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 17-08

Authorizing an Operating Loan to the Portland Economic Investment Corporation and an Update on PDC Inclusive Entrepreneurship Activities

BOARD ACTION REQUESTED

Adopt Resolution No. 7228

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize a \$55,250 operating loan to the Portland Economic Investment Corporation (PEIC), allowing PEIC to continue to play a critical role supporting PDC's entrepreneurship programs. PEIC, a special entity established by PDC, has facilitated the launch and capitalization of two seed funds that achieved significant results for supporting local entrepreneurs and growing high wage jobs in Portland. If approved, the operating loan will assist PEIC in covering costs such as tax preparation, business license fees, insurance, bank trust account fees, and legal services.

This report will also provide an update on PDC's inclusive entrepreneurship activities, which staff will discuss at the March 8, 2017 PDC Board meeting.

BACKGROUND AND CONTEXT

The PEIC was incorporated in 2013 as an independent 501(c) 4 with the stated purpose of promoting social welfare, including the advancement of economic development in Portland by encouraging and assisting industrial and commercial enterprises in locating and expanding in the Portland metropolitan area and by attracting investment in catalytic redevelopment projects. The organization is governed by a three-member board of directors, who are appointees of PDC, Greater Portland Inc., and Portland Business Alliance.

The PDC Board has authorized two significant investments through PEIC, which operates as a vehicle to facilitate public investment in mission-driven equity capital funds. On June 26, 2013, the PDC Board through Resolution No. 7012 authorized a \$575,000 grant to PEIC to support capitalization of the Portland Seed Fund's second fund (PSF II) and solve critical capital gaps for high growth startups in the Portland area. The grant included \$500,000 for capital investment and \$75,000 for administrative costs. Since then, PSF II has funded 41 companies, attracted \$93,000,000 of additional capital, and helped create 334 jobs.

The PDC Board, through Resolution No. 7172, authorized a second investment with PEIC on March 9, 2016, authorizing a \$1,050,000 grant (including \$500,000 in capital resources apiece from PDC and

Multnomah County and \$50,000 in operating resources from PDC) to PEIC to invest in and administer the Inclusive Startup Fund (ISF). Since then, ISF has invested in eight companies that employ almost 60 people and have raised almost \$6,000,000 of capital aside from ISF's initial investment. Half of the founders are women and half are people of color (otherwise significantly under-represented populations within the startup community). The original grant agreement contemplated that the capital grant resources would be disbursed by March 31, 2017; after discussions with ISF fund manager Elevate Capital, staff is requesting that this date be extended to August 30, 2017 to allow for Elevate Capital to continue seeking private funds.

PEIC has no revenue source to pay for basic operating costs in future years such as tax preparation, business license fees, insurance, bank trust account fees, and legal services. It is estimated that these costs through December 31, 2019 will amount to \$55,250. Since PSF II and ISF are not expected to see any capital return for the first seven years of their fund lifecycle (2020 and 2024 respectively), operating loan payments are structured to allow time for a capital return from PSF II or ISF to PEIC.

Update on PDC Inclusive Entrepreneurship Activities

PDC's work to implement Objective 3.1 (Inclusive Innovation and Entrepreneurship Ecosystem) of the PDC 2015-2020 Strategic Plan involves programs and activities that address needs and barriers for different types of entrepreneurs along the entrepreneurship spectrum. PDC's activities are tailored to look at every point along this spectrum and develop pathways for business owners to work with their own growth trajectory to accumulate wealth. For example, this may involve assisting a microenterprise in hiring staff and expanding their operations so that they become a growing small business, or assisting a growing small business to scale a particular product line. All PDC entrepreneurship activities place an equity lens and emphasis on serving underrepresented entrepreneurs. The lens is applied by understanding the unique barriers for underrepresented entrepreneurs and strengthening partnerships with organizations that have the cultural competencies to serve those entrepreneurs.

Following is a high-level description of PDC's inclusive entrepreneurship activities and programs, each of which serves entrepreneurs on different growth paths:

- **Microenterprise and Small Business Development Program.** This program aims to create, grow, and strengthen microenterprise (those with fewer than five employees) and small businesses (those with fewer than 50 employees) through technical assistance and training. PDC contracts with non-profit organizations to deliver technical assistance and training to approximately 500 businesses each year. Businesses may also receive legal services, credit repair assistance, and access to market research.
- **The Increase Project.** This program takes established small business owners of color through a rigorous and tailored nine month business growth planning course utilizing the Streetwise MBA™ curriculum. PDC is currently soliciting proposals from partners to deliver a program that would achieve similar business growth goals to The Increase Project while serving more businesses.
- **Startup PDX Challenge.** This competition awards six startup companies free space, investment, and mentorship for one year. One criterion for selecting companies for this program is that the founding team includes at least one member from an under-represented population. Startups must have ambitions to scale to a national or international market. PDC is currently soliciting proposals from partners to run a program that would achieve similar goals to this program and serve more businesses. A revised program will be tailored to serve concept stage entrepreneurs to make them investment ready and better positioned for other PDC backed financial programs, such as ISF.

- **Inclusive Startup Fund (ISF).** As described earlier in this report, this \$3,000,000 seed fund is targeted to early stage entrepreneurs from underrepresented backgrounds. Startups receive early stage investments of \$25,000 to \$75,000 each and six months of tailored mentoring.

COMMUNITY AND PUBLIC BENEFIT

The proposed operating loan will allow PEIC to continue to play a critical role in helping PDC achieve its inclusive entrepreneurship goals.

PUBLIC PARTICIPATION AND FEEDBACK

Staff has not conducted public participation specific to this proposed operating loan.

BUDGET AND FINANCIAL INFORMATION

There are sufficient funds in PDC's FY 2016-17 General Fund budget for the \$55,250 operating loan.

RISK ASSESSMENT

PDC's financial assistance to PEIC is in the form of a high interest loan that may be paid back from returns from PSF II and/or ISF. Both funds make high-risk investments in startup businesses so there is a risk that together they will not generate sufficient returns to cover the loan repayment. If PEIC does not receive sufficient returns for a loan repayment, the loan will need to be restructured or forgiven.

ALTERNATIVE ACTIONS

The PDC Board can elect to:

- Amend any of the operating loan terms.
- Request that staff seek alternate public sources.
- Decline the operating loan.

ATTACHMENTS

None.