



**PROSPER
PORTLAND**
Building an Equitable Economy

DATE: November 13, 2019
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 19-54
Approving Guidelines for the Revenue-Based Financing and Creating Opportunity Loan Programs

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7349

This proposed action by the Prosper Portland Board of Commissioners (Board) will approve program guidelines (Program Guidelines) for the Revenue-Based Financing (RBF) and Creating Opportunity (CO) loan programs, new financial tools designed to meet the needs of traded sector companies in industries defined in Prosper Portland's Strategic Plan. In autumn 2021, after a two year pilot, staff will make any necessary changes to the Program Guidelines and seek Prosper Portland Board approval as permanent loan programs with dedicated funding.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

Prosper Portland's Strategic Plan focuses on ensuring inclusive economic growth by supporting competitive industries that provide high-quality employment opportunities and by using necessary tools to encourage diversity in the workforce. The RBF and CO loan programs have been structured to address access-to-capital issues faced by traded sector businesses, while also providing an incentive for those businesses to provide job opportunities for Portland residents across all geographic and cultural communities.

During the two-year pilot period, staff will assess the loan programs for delivery of both anticipated outputs and outcomes. Outputs will include the number of loans funded, the number of businesses that participate in the equity incentive feature of the programs, and the percentage of participants that receive the discount described herein by successfully achieving their equity goals. Anticipated outcomes include increased diversity at cluster industry businesses; new partnerships established between cluster industry businesses and those owned by people of color and women and improved access to capital for businesses owned by people of color and women.

BACKGROUND AND CONTEXT

Prosper Portland provides working capital and equipment financing, but the number of loans funded has declined substantially over the last few years. In fiscal year (FY) 2014-15, the agency closed 15 business loans (not including Commercial Property Redevelopment, predevelopment, or tenant improvement loans). Since that time, the agency has funded, on average, three business loans annually. The loans were funded primarily from the Economic Development Administration (EDA) program, which is designed to provide financing to businesses that are unable to secure loans from banks and other lending sources. Even with this focus, EDA program guidelines lack the flexibility needed to fund many

the borrowers who come to Prosper Portland for financing. For example, some borrowers are unable to contribute ten to 20 percent of the requested financing amount or project costs, as required by EDA guidelines. This mismatch in lending resources has contributed to the lack of meaningful loan production and has also limited the agency's ability to address access-to-capital issues faced by cluster industry firms and businesses owned by individuals from underrepresented populations.

To address access-to-capital issues, Prosper Portland staff convened a brainstorming session in October 2018 comprised of alternative and conventional lenders, technical assistance providers, and community partners to discuss gaps in the financing market and possible solutions to address them. Based on this conversation and subsequent research into social impact investing, staff identified three potential pilot loan programs:

1. The **Thriving Small Business Loan program** (TSB) provides flexible financing and rewards start-up and early-phase companies that engage in technical assistance programs. During the two-year pilot, the program will focus on providing financing to Prosper Portland's Inclusive Business Resource Network clients, Increase Project graduates, Mercatus and My People's Market participants, and Neighborhood Prosperity Network businesses. Applications will also be accepted from other Portland-area small businesses during the pilot period. Staff anticipates that a minimum of seven TSB loans will be funded during FY 2019-20. On June 12, 2019, the Prosper Portland Board through Resolution No. 7315 approved TSB loan program guidelines.
2. The **Revenue-Based Financing program** (RBF) combines features of bank debt and venture capital and provides flexibility to the business owner in the repayment of the debt without the need to give up equity in the company. Repayment of financing is based on a percentage of the borrower's monthly revenue rather than a fixed amount. The payments fluctuate with the financial performance of the business, with payments increasing when revenue is strong and decreasing when it is lower. As an incentive for companies to embark on a journey of internal culture change that results in a more inclusive and diverse workforce, the RBF loan program provides forgiveness of up to ten percent of total repayment amount at the end of the loan term for borrowers who successfully launch a diversity, equity, and inclusion program and develop short- and long-term goals that center an equity strategy in the workplace culture. Borrowers are not required to engage in this work as a condition of loan approval but will not receive the forgiveness benefit if they decline to do so. Staff anticipates that a minimum of three RBF loans will be funded during FY 2019-20.
3. The **Creating Opportunity Loan program** (CO) focuses on the creation and retention of middle-wage jobs. The CO program is designed to provide financing to growth-stage, near-bankable traded sector companies that are generating recurring and growing revenue and adding new customers. This loan program also provides an incentive for businesses to create a more inclusive and diverse workplace. Businesses can receive an interest rate reduction of up to five percent if they successfully launch a diversity, equity, and inclusion program and develop short- and long-term goals that center a racial equity strategy in the workplace culture. Staff anticipates that a minimum of seven CO loans will be funded during FY 2019-20.

Prosper Portland's lending team is collaborating with the Business and Industry and Communications and Involvement teams to create business development work plans and a marketing strategy that will be used to inform businesses of the RBF, TSB, and CO loan programs.

EQUITY IMPACT

The RBF and CO loan programs provide an incentive for all Portland-based businesses, whether white- or People of Color (POC)-owned, to engage in diversity, equity, and inclusion training that creates lasting, measurable and meaningful change within their organizations and the larger community. Prosper Portland staff has structured the equity incentive program to create more diverse and inclusive

workforces, more business and partnerships for women- and POC-owned firms, and additional mentorship/internships for students from historically marginalized populations.

COMMUNITY PARTICIPATION AND FEEDBACK

Prosper Portland staff convened a brainstorming session in late 2018 to discuss access-to-capital issues. Feedback from the participating conventional lenders, technical assistance providers, and community partners was critical in creating the TSB, RBF, and CO loan Program Guidelines. That conversation brought focus to financing gaps facing local businesses and informed lending partners and technical assistance providers of Prosper Portland's plan to create new loan programs to fill the gaps.

Additionally, the Council for Economic and Racial Equity (CERE) has played a critical role in the development of the Program Guidelines and provided feedback regarding the equity-related features of the loan programs. Feedback from CERE to date has included:

- How will equity practitioners engage with borrowers and Prosper Portland during the implementation of the equity-related work and follow-up?
- How will outcomes be tracked?
- How will accountability standards ensure that job opportunities created to earn incentives are not just low-tier jobs or ones created simply to tokenize POC employees in order to receive discounted rate/partial loan forgiveness?
- How will POC-owned firms receive incentives for completing equity work? For example, how can POC-owned firms with staff that are mostly or all POC qualify to receive discounted rates/partial loan forgiveness?
- How can the loans be targeted to both majority-owned cluster industry firms and minority-owned firms?

Staff will address these and other concerns with the assistance of Prosper Portland's Equity Practitioner Advisory Group, which has been assembled to act as a thought partner in developing tools and answering questions around how to best support businesses that engage in the equity-related work. The group will be tasked with helping Prosper Portland develop a toolkit for the loan programs and other initiatives (e.g., Portland Means Progress) that provides guidance and protocols for businesses to be successful in their diversity, equity, and inclusion work. Work on the toolkit is currently underway, and feedback from the Equity Practitioner Advisory Group and a CERE sub-committee will allow Prosper Portland to complete the development of the equity-related portions of the loan programs.

BUDGET AND FINANCIAL INFORMATION

Prosper Portland has programmed resources for three loan funds (Business Development Loan Fund, Small Business Loan Fund, and Working Capital Loan Fund) in the budget and four-year forecast: there is \$1,500,000 allocated for FY 2019-20, \$1,500,000 for FY 2020-21, and \$700,000 for FY 2021-22. Should the Prosper Portland Board approve the Program Guidelines, staff will reallocate all of these resources to fund the three loan programs during the two-year pilot period.

RISK ASSESSMENT

As with any loan, there is a risk of potential default. This risk may be greater with the RBF and CO loan programs due to features such as the less-stringent collateral requirements (real estate collateral not required for loan approval) and willingness to fund businesses that have a shorter operating history than banks might traditionally seek. This risk is mitigated by a budgeted 30 percent interest loss reserve, a 30 percent principal loss reserve, prudent underwriting and review by the Financial Investment Committee,

and by securing the loan with the best available collateral. Furthermore, personal guarantees will be required from all individuals with 20 percent or more ownership in the business.

ALTERNATIVE ACTIONS

The Prosper Portland Board may elect to not approve the Program Guidelines, in which case Prosper Portland will not be able to administer the RBF and CO loan programs. Alternately, the Prosper Portland Board could propose amendments to the Program Guidelines prior to adoption.

ATTACHMENTS

None.