



PROSPER
PORTLAND
Building an Equitable Economy

DATE: August 12, 2020
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 20-32
Authorizing the Acceptance of a \$1,480,000 CARES Act Supplemental Grant from the United States Economic Development Administration Cares Act

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7384

This action by the Prosper Portland Board of Commissioners (Board) will authorize Prosper Portland to accept a \$1,480,000 Coronavirus Aid, Relief, and Economic Security (CARES) Act Revolving Loan Fund Supplemental Disaster Recovery and Resiliency Grant award from the United States Economic Development Administration (EDA).

On June 10, 2020, through Resolution No. 7377, the Prosper Portland Board authorized the application to the EDA; the action on the August 12, 2020 meeting agenda will formally accept the grant, which awarded by the EDA based on the agency's finding that the COVID-19 pandemic constitutes a situation of unusual and compelling urgency and that it was in the public interest to make noncompetitive awards to existing grantees that have the ability to respond to the pandemic quickly.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

This action aligns with Prosper Portland's Strategic Plan by securing growing family-wage jobs, advancing opportunities for prosperity, collaborating with partners for an equitable city, creating vibrant neighborhoods and communities, and creating a financially sustainable agency.

BACKGROUND AND CONTEXT

The EDA's Revolving Loan Fund (RLF) is a United States Department of Commerce program designed to provide financial assistance to small and startup businesses that expand and create high quality employment opportunities, especially in distressed neighborhoods. Prosper Portland has administered these funds on behalf of the City of Portland since 1979.

The EDA requested that Prosper Portland apply for the additional CARES Act funds and an application was submitted on June 5, 2020. The financing provided through the EDA RLF (both current and new grants) will offer much needed capital to cluster industry businesses and other small businesses, many of which are struggling as a result of the economic impact of the COVID-19 pandemic. Providing working capital to cluster industry firms and businesses owned by underserved populations will allow for businesses to pay back rent and utilities; purchase inventory or personal protective equipment; meet payroll costs; set up or improve online sales/e-commerce infrastructure for pivoting the business to address COVID-19 social distancing requirements; and provide needed technological support to

employees for pandemic required teleworking environments and other business stabilization and recovery needs.

In late March 2020, the EDA announced that entities such as Prosper Portland would be allowed to make changes to their RLF operating guidelines to meet the needs of businesses that are dealing with the impacts of the COVID-19 epidemic. Prosper Portland's RLF Administrative Plan term was set to expire on June 1, 2020 and it was expected that the changes to the guidelines would end at that time. The following changes were approved by the Prosper Portland Board and were submitted to the EDA in April 2020:

- Prosper Portland's RLF provided for loan fees up to 2% and we asked for the flexibility to waive the loan fee.
- EDA required a 2:1 match for loans on a portfolio wide basis and we asked EDA to waive this requirement for the duration of the RLF Administrative Plan (June 2020).
- EDA required that positive cash flow should be demonstrated over a 3-year projection period with at least an average Debt Service Coverage Ratio (DSCR) of 1.0x. Due to the still unfolding impact of COVID-19 on the business community, we asked for flexibility to waive this requirement, which would allow Prosper Portland to fund businesses that might not meet the minimum DSCR during the initial 12-month period based on projections.
- EDA guidelines allowed for up to two years of interest only payments or capitalized interest for the initial two years, if the average DSCR for the projected initial three years is above 1.0x. We asked EDA to waive this requirement, in line with the change asked for above.
- Our 2015-20 RLF plan required that loan requests are first recommended to the Asset & Investment Manager, then to Development and Investment Director, after which it would be submitted to Financial Investment Committee (FIC) for consideration and then the Executive Director for final approval. In order to provide maximum flexibility and the ability to get funding to businesses as quickly as possible, we asked for approval of an expedited process. As long as loan requests meet current and proposed changes to EDA loan program guidelines, we proposed that loan requests can be approved by the Asset & Investment Manager, up to their respective spending approval limit and those that exceed that level can be approved by the Development & Investment Director, up to their respective spending approval limit. Any loan requests exceeding those spending limits will be presented to FIC for consideration and to the Executive Director for final approval.

EDA approved all these changes except for Request #2, which was subsequently temporarily approved for all EDA RLF entities in May 2020. This temporary change, along with the requirement for borrowers to provide evidence demonstrating credit is not otherwise available, are waived until May 6, 2021.

EDA informed Prosper Portland that the approved changes (not including the temporary waivers provided to all grantees until May 6, 2021) will be incorporated into the updated RLF Administrative Plan as an addendum to the document and will be in place until June 2025. When the Board approved these changes, the understanding was they would expire in June 2020. The Board is being asked to approve the extension of these changes for the duration of the economic downturn occurring as the result of the COVID-19 pandemic, after which Prosper Portland will return to the guidelines contained in the 2015-2020 guidelines, which will be extended in the current RLF Administrative Plan which will expire in June 2025. If approved, this request will be submitted to EDA for final approval.

The following additional changes are proposed for the EDA lending program during the duration of the economic downturn, which will be submitted to EDA if approved with this Board action:

- Increase of maximum loan term from the current seven year to ten years (not including up to two years of interest-only or capitalized interest period)
- Ability to structure loans with an interest rate that increases by up to three percent every three to four years to encourage repayment as the economy improves. A feature of this loan would allow borrowers to maintain the initial low rate if they complete 30 hours of technical assistance or engage in equity training and/or other practices that result in the creation of a more diverse workforce. The equity training portion of this proposed change will be developed in partnership with the Lending, Equity and Economic Development teams. The Council for Economic and Racial Equity (CERE) will also be engaged to advise and review.

EQUITY IMPACT

Prosper Portland strives to improve access to capital for small businesses, with a focus on those owned by women, people of color, and entrepreneurs from low-income neighborhoods. Many of these businesses fall within four target cluster industries (Athletic & Outdoor, Metals & Machinery, Green Cities and Technology & Media) that receive supporting services from Prosper Portland. As these cluster industries generally create living wage jobs, ensuring their survival is a priority and access to capital and other resources can improve their chances to recover from the downturn. The proposed equity training feature will be developed to encourage businesses to engage in culture change work to create a more diverse and inclusive workplace.

COMMUNITY PARTICIPATION AND FEEDBACK

Staff did not solicit any public participation or feedback on the Grant award but will engage with CERE in the development and implementation of the equity feature of the loan program.

BUDGET AND FINANCIAL INFORMATION

As a result of being awarded the CARES Act grant, staff, through a different August 12, 2020 agenda item, will request the Prosper Portland Board approve an amendment to the fiscal year 2020-21 Adopted Budget to include the revenue and projected expense.

RISK ASSESSMENT

There are no risks to accepting the Grant beyond those ordinarily incurred in the administration of federally funded lending programs of this type (for example, adhering to use of fund requirements and reporting requirements). Prosper Portland has partnered with the EDA on a previous revolving loan fund and is familiar with the reporting requirements.

ATTACHMENTS

None.