

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: December 13, 2006
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 06-134
Financial Assistance Products and Process

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

None - Information only

SUMMARY

This report provides an overview of how PDC provides financial assistance to businesses, nonprofits, and individuals. It includes a list of the guidelines for existing loans and grants and a summary of the review and approval process.

PDC has engaged in an extensive review of its internal process for providing financial assistance, culminating in a series of reports and action items for the Board to consider. This is the second proposal in that series. In October, the Board modified the approval process for loans given to an entity holding more than five percent of PDC's outstanding loan portfolio.

In early 2007, the Board will be asked to approve guidelines for loans and grants (including several new or revised products), consider the delegation of authority to the Loan Review Committee and the Executive Director to review and approve financial assistance, and adopt a revised Loan Policy and Procedures Manual.

BACKGROUND

PDC provides a variety of loans and grants to businesses, nonprofits and individuals. Originally, the Board reviewed and approved all requests for financial assistance. Over time, the Board has adopted guidelines for various loans and grants and delegated authority to approve financial assistance that is consistent with adopted guidelines. Many different loan and grant products have been created, revised and discontinued over the years to reflect changes in funding, market conditions and business strategies.

In 1997, the Board adopted Resolution No. 5027, establishing the Loan Review Committee (LRC) to "review all Commission loans, tax abatement actions and similar financing transactions except for those for which an alternate approval process has been established."

In practice, LRC reviews a staff report for all loans and grants and provides a recommendation to the Executive Director, who then approves or denies the request. Some guidelines provide for an alternate approval process.

LRC's authority and processes were extensively examined in 2004, resulting in a series of recommendations. Those recommendations were further considered during the Enterprise Information System (EIS) Project. In addition, the EIS process compiled an inventory of all existing guidelines to create the Financial Products Manual (the "Manual").

Aside from the guidelines, the Manual also contains additional administrative policies that apply to all departments. For instance, the Green Building Policy and requirements for Minority, Women and Emerging Small Business participation apply regardless of the originating department. Those policies are being reviewed, and the Manual will be updated as necessary to provide consistency on agency-wide initiatives for all departments. Staff is also considering how to incorporate recent guidance from the Board on issues such as time to market and providing for a "look back" where applicable.

The guidelines for each loan and grant product generally contain the following: purpose of the loan or grant, eligibility criteria, allowed use of funds, maximum loan amount, interest rate, required collateral, investment and return requirements and additional underwriting criteria and product specific terms as necessary. The guidelines for the Quality Jobs Program are attached to this report as an example.

All of the product guidelines have been developed over time and in conjunction with city bureaus, customers, financing partners and other external parties. All of the departments continue to refine terms and conditions to meet the changing needs of the community. Products may be added as needed in order to effect delivery of policy goals. Products that are obsolete will be removed from the Manual.

The current version of the Manual contains the following guidelines (listed by department):

Economic Development:

- Quality Jobs Program
- Economic Opportunity Fund
- Direct Tax Increment Fund
- Enterprise Loan
- Economic Development Administration (Real Estate and Revolving Loan Fund)
- Section 108 Loan Program (Economic Development Initiative)
- North/Northeast Business Assistance Loan Fund
- Storefront Improvement Program
- Technical Assistance Program

Housing Development Finance:

- Housing Development Subordinate Loan
- Equity Gap Contribution or Cash Flow Share Note
- For-Sale Housing Development Loan
- Housing Development Bridge Loan
- Nonprofit Facility Grant
- Nonprofit Predevelopment Loan
- Nonprofit Acquisition Financing Loan
- PDC Direct Financed Housing Predevelopment Loan
- PDC Direct Financed Acquisition Loan
- Private Activity Bonds
- 501(c)3 Bonds
- City Lights Housing

Housing also administers several tax exemption programs for the City, including the Transit Oriented Development Tax Exemption, New Multiple Unit Housing Property Tax Exemption, and rental and owner-occupied limited tax exemptions. City Council has revised several of the tax exemption programs which will require revisions to the Manual.

Development:

- Seismic Loan
- Development Opportunity Services (DOS) Grant

Development has generally provided financial assistance to projects through Development Agreements (DAs) or Disposition and Development Agreements (DDAs) rather than under an existing loan product. While these agreements will continue to be used for certain projects and approved by the Board, Development is in the process of creating guidelines for new loan and grant products to create greater flexibility. When the Board adopts those guidelines, the Board can provide that the new loans and grants will be reviewed by LRC and approved by the Executive Director. The new products will assist with implementation of mixed-use or commercial property redevelopment and retail retention and improvement. In addition, the DOS product will be expanded to include industrial predevelopment activities and a community livability grant program that is currently active in the Interstate Corridor may be made available in other urban renewal areas.

Neighborhood Housing Program:

- Renovation First Mortgage Loan Products (Fannie Mae Homestyle Purchase and Refinance; Oregon Housing and Community Services Residential Loan Program; Nonprofit Renovation First Mortgage Loan Product)

- Home Repair/Improvement Loan Products (Urban Renewal Area Improvement/Repair Loans; Lead Hazard Control Program; City of Beaverton Housing Rehabilitation Program; Contaminated Property Rehabilitation Loan for owner occupied and rental; Small Rental Rehabilitation Loan)
- Homebuyer Assistance Products (Interest Rate Buydown; Jump Start Homebuyer Assistance; Shared Appreciation Mortgage; Nonprofit Renovation Predevelopment Grant; Portland Community Land Trust Buyer Initiated Program)

NHP is also examining options to expand its ability to originate first mortgages.

In addition to the Manual, LRC's Loan Policy and Procedures Manual contains financial principles and policies, a description of staff roles and responsibilities, and standard loan conditions and procedures. This manual and LRC's role will be addressed further at a future meeting.

The next step for this initiative is to complete the internal review of the guidelines. Each operating department has reviewed existing guidelines and proposed revisions, which are undergoing a legal, finance and policy review. New product guidelines will undergo the same internal review process. Staff will incorporate all revisions and any direction from the Board to develop uniform and consistent guidelines that can be adopted by the Board and made available to the public. Concurrent with this effort, staff will prepare material for the Board to consider the role of LRC in the approval process and adopt a comprehensive financial assistance policy.

ATTACHMENTS:

A. Quality Jobs Program Guidelines

CC: M. Molina, Associate General Counsel
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QUALITY JOBS PROGRAM (QJP)

The Quality Jobs Program (QJP) recognizes and rewards those companies who pay higher wages and invest more in the city. While average wage levels and job density remain key components of this incentive loan program, investment in buildings and equipment is an added consideration.

A provision of the QJP addresses a challenge particular to small business: a need for capital which is often greater per employee than that for larger companies. The QJP award may be doubled per job for the first ten jobs, making the program more valuable to companies with few employees while allowing all employers to take advantage of the additional benefit. Award of loan fund is based on the number of jobs expected to be retained for two consecutive years and average salary of the company.

Eligible Purpose

Funding for this program is through tax increment financing (TIF) and, therefore, is tied to the infrastructure and physical improvements (including tenant improvements) of real estate projects within an Urban Renewal Area.

Service Area

Within approved Urban Renewal Areas.

Job Creation/Retention

- There is a spreadsheet-based formula designed to calculate loan amount based on the number of employees and average wage paid by the company.

Loan Program Guidelines

- Loan Amount: capped at \$750,000 alone or in conjunction with EOF.
- Interest Rate: 0% for the first 2 years (performance period); Interest only for 7 years as follows:
 - 1% interest rate if fully compliant with job requirement;
 - 5% interest rate if 50% or better compliant with job requirement;
 - 8.5% interest rate if less than 50% compliant with job requirement.
- A one-year grace period prior to start of performance period may be granted.
- Fee: 1% of amount borrowed.
- Term: 20 year due date; amortizing over final 13 years.
- Provide an average wage of at least 200 percent of Oregon's minimum wage.*
- Provide at least 75% of goods, products, services to other businesses.*
- Establish a minimum job/building density of one employee per 800 square feet.
- Enter into a First Source Agreement with Worksystems, Inc. and participate in a mid-cycle compliance review with PDC staff.
- Maintain the requirements listed above for a minimum of two years.

* Requirement is waived if business employs less than 20 employees, and total award is reduced by 50%.