

ANALYSIS

Item 33: Oregon Business Development Department Small Business Credit Initiative

Analyst: Matt Stayner

Request: Approve, retroactively, the submission of a federal grant application by the Oregon Business Development Department to the U.S. Department of the Treasury in the amount of \$91,531,236 under the State Small Business Credit Initiative program, increase Federal Funds expenditure limitation by \$91,531,236 for expenditure of the grant funds, and authorize the establishment of four limited duration positions (2.68 FTE) to facilitate the distribution of the funds.

Analysis: On November 29, 2021, the Oregon Business Development Department (OBDD) provided the Legislature with notification of its intent to apply for a federal grant in the amount of \$91.5 million from the U.S. Department of Treasury (Treasury) under the State Small Business Credit Initiative program. The initial application was due December 11, 2021.

The American Rescue Plan Act of 2021 (ARPA) provided \$10 billion in funding to the U.S. Treasury Department for the distribution to states under the State Small Business Credit Initiative program. This is the second round of funding for the program that was established by Congress in 2010. Under the first funding round, OBDD was allocated \$16.7 million, deploying the funding over a five-year period between 2012 and 2016. The anticipated \$91.5 million grant to Oregon for the current funding round is comprised of five sub-allocations as follows:

- Main Allocation (least restrictive on use of program funds) \$52,092,000
- Very Small Business Allocation (limited to businesses with less than 10 employees) \$4,172,176
- Socially and Economically Disadvantaged Individual (SEDI) Allocation (limited to eligible individuals) \$17,782,859
- Socially and Economically Disadvantage Individual Performance-Based Allocation (additional funds dependent on performance of core SEDI allocation) \$9,484,191
- Technical Assistance (actual amount and guidance not yet released by Treasury) estimated at \$8,000,000

Outside of the funding for technical assistance, the current deployment plan as developed by OBDD will retain the requirements of the individual allocations, but will comingle the funding for distribution through existing programs as follows:

- \$30 million - Business Oregon Venture Capital Programs; his portion of the funding will be invested both in venture capital funds (Venture Capital Program) and through direct investment in Oregon-based companies through a co-investment partner (Co-Investment Program)
- \$12 million - Oregon Royalty and Business Development Funds
- \$32.5 million - Credit Enhancement Fund
- \$9 million - Business Oregon Re-lender Program

The performance period for the federal funding runs through December 31, 2031. The funding is intended to be distributed in three tranches along with a separate release for the Technical Assistance funding that has yet to be determined. The first tranche is expected to be \$24.43 million. The second

and third funding tranches are contingent on 80% of the previous tranche(s) being committed and reviewed by the U.S. Treasury. OBDD's current estimate is that the second tranche would be drawn upon late in 2024. The federal funding allows for up to 5% of the funding from the first tranche to be used for administrative expenses, with the percentage decreasing to 3% for the subsequent rounds.

As noted above, the initial grant application was due December 11, 2021, however that initial application only included basic information including the agency's intent and legal authority to apply for the funding. The final application package is due on February 10, 2021; the final amount and uses of the funding may change prior to the finalization of the application pending additional guidance from the U.S. Treasury.

Recommendation: The Legislative Fiscal Office recommends that the Joint Interim Committee on Ways and Means approve, retroactively, the submission of the grant application and recommend including proposed budgetary changes, after further review and refinement, in a budget reconciliation bill during the 2022 legislative session.

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Oregon Business Development Department
McDonald

Request: Retroactive authorization to apply for a non-competitive grant of \$91.5 million from the State Small Business Credit Initiative to support Oregon’s small business; increase Federal Funds expenditure limitation by \$91.5 million to expend the anticipated award; and establish four limited duration, full-time positions (2.68 FTE).

Recommendation: Approve the request during the February 2022 Legislative Session, with the following modification: Approve the request for retroactive authorization to apply for a non-competitive grant of \$91.5 million from the State Small Business Credit Initiative to support Oregon’s small business; and increase Federal Funds expenditure limitation by \$32.4 million to expend the anticipated award; and establish four limited duration, full-time positions (2.68 FTE).

Discussion: On April 12, 2021, the Oregon Business Development Department (OBDD) received notification of a \$91.5 million opportunity from the U.S. Department of the Treasury, State Small Business Credit Initiative (SSBCI) made possible through the American Rescue Plan Act of 2021. Treasury provided further guidance, including preliminary allocations, to eligible recipients on November 11, 2021. OBDD submitted the federal application for Oregon’s allocation on December 10, 2021 and seeks retroactive authorization to apply for this grant. This opportunity provides funding to states, U.S. territories and federally recognized tribes to expand access to capital for small businesses emerging from the pandemic, build ecosystems of opportunity and entrepreneurship, and create high-quality jobs. The State of Oregon is eligible to apply for a non-competitive award of \$91.5 million, comprised of the following four distinct allocations:

- Main Allocation – \$52,092,000
- Very Small Business (VSB) Allocation – \$4,172,176
- Socially & Economically Disadvantaged Individual (SEDI) Allocation – \$27,267,060
- Technical Assistance (TA) Allocation (projected) - \$8,000,000

OBDD intends to allocate the funding to eligible programs, as defined by SSBCI, including venture capital programs, loan guarantee programs, loan participation programs, and technical assistance programs, all of which are aimed at promoting capital access to recipient jurisdictions. It is anticipated OBDD will receive the full award allocated for Oregon and therefore requests an increase in Federal Funds expenditure limitation of \$91.5 million to allow the Department to expend the award. There is no grant match requirement and an administrative allowance of up to \$3.0 million.

The period of performance will run through December 31, 2031 and all awarded funds must be disbursed, invested, obligated, or used for eligible administrative costs during the 10-year period. OBDD requests establishment of four limited duration, full-time positions (2.68 FTE) to administer the program and facilitate distribution of the funds. These positions include two Loan Specialist 3 positions, one Loan Specialist 1, and one Operations and Policy Analyst 4. It is anticipated OBDD will continue to require these limited duration positions for the duration of the program. OBDD expects the loan repayment revenue to support staffing costs in the future, even after the federal administrative allowance is exhausted.

Although OBDD anticipates receiving the full award allocated for Oregon over the course of the performance period, it will be delivered in three tranches with a separate disbursement of the \$8.0 million intended for technical assistance. According to OBDD program staff, receipt of the SSBCI funds is estimated as follows:

- Tranche 1 - \$24,425,621.55 – likely drawn in current biennium
- Tranche 2 - \$29,167,717.05 – contingent upon 80% commitment of previous tranche and a portfolio review by U.S. Treasury staff, likely drawn in late 2024
- Tranche 3 - \$29,907,887.40 – contingent upon 80% commitment of previous tranche(s) and an audit by SSBCI Office of Inspector General, likely drawn in 2027

Given the estimated disbursement timeline, the Department of Administrative Services, Chief Financial Office recommends increasing OBDD’s Federal Funds expenditure limitation by \$32,425,622 to allow for tranche 1 as well as the \$8.0 million for technical assistance in the 2021-23 biennium. OBDD program staff anticipates having more accurate projections and a better grasp on draw dates in 2023, after gaining some experience in deploying the capital.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 560, section 4(1), Oregon Laws 2021, for the Oregon Business Development Department, Business Innovation and Trade Division, by \$32,425,622 for the 2021-23 biennium.



December 8, 2021

Senator Elizabeth Steiner Hayward, Co-Chair
Representative Dan Rayfield, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301

Dear Co-Chairpersons:

Nature of the Request

The purpose of this letter to is to:

- Request retroactive approval of the submission of a federal application for the State Small Business Credit Initiative (SSBCI) program. The Oregon Business Development Department (Department) will apply for an award with the United States Department of the Treasury (Treasury) for \$91,531,236 on December 10, 2021;
- Request an increase in Federal Funds limitation in the amount of \$91,531,236 to allow the Department to expend the award; and
- Request authorization for four limited duration positions to administer the funded programs.

Agency Action

Background

On April 12, 2021, Treasury notified the State of Oregon of the opportunity to apply for allocated funding made available to States, U.S. Territories and federally recognized Tribes through the American Rescue Plan Act of 2021 (ARPA). Guidance was provided to eligible recipients by Treasury on November 11, 2021.

Through this 2021 ARPA appropriation administered by Treasury, the State of Oregon is eligible to apply for a non-competitive award that is comprised of four distinct allocations totaling \$91.5M:

- Main Allocation – \$52,092,000
- Very Small Business (VSB) Allocation – \$4,172,176
- Socially & Economically Disadvantaged Individual (SEDI) Allocation – \$27,267,060
- Technical Assistance (TA) Allocation (projected) - \$8,000,000

Department proposes to allocate the funding to eligible programs prescribed by Treasury as follows:

- Venture Capital
- Loan Guarantee Programs
- Loan Participation Programs
- Technical Assistance Program

No matching funds are required for this award. The award includes an administrative allowance of up to \$3M. Department is requesting four limited duration positions to facilitate the distribution of these funds.

The performance period of the award will run through December 31, 2031. All awarded funds must be disbursed, invested, obligated or used for eligible administrative costs during this period. The Department has past experience working with the Treasury on the SSBCI program. In 2012, the Department was awarded \$16,590,901 in SSBCI funding; the full allocation was deployed over the four-year contract period, leveraging over \$175M in private capital and resulting in the creation and retention of over 1,696 jobs.

Action Requested

The Department respectfully requests:

- Retroactive approval of the submission of a federal application for the State Small Business Credit Initiative (SSBCI) program. The Oregon Business Development Department (Department) will apply for an award with the United States Department of the Treasury (Treasury) for \$91,531,236 on December 10, 2021;
- An increase in Federal Funds limitation in the amount of \$91,531,236 to allow the Department to expend the award; and
- Authorization for four limited duration positions to administer the funded programs: two Loan Specialist 3 positions, one Loan Specialist 1 position and one Operations and Policy Analyst 4 position.

Legislation Affected

Increase the Federal Funds expenditure limitation established by chapter 560, Section 4(1), Oregon Laws 2021 for the Oregon Business Development Department for Business, Innovation and Trade by \$91,531,236.

Sincerely,

Sophorn Cheang
Director