

## ANALYSIS

### Item 30: Business Development Department State Small Business Credit Initiative

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**Analyst:** Matt Stayner

**Request:** Increase Federal Funds expenditure limitation for the Business Development Department by \$26.5 million and authorize the establishment of four permanent positions (2.0 FTE) for the administration and expenditure of federal State Small Business Credit Initiative program funds.

**Analysis:** During the January 2022 meeting of the Interim Joint Committee on Ways and Means, the Oregon Business Development Department (OBDD) was granted approval to apply for federal grant funds from the U.S. Treasury Department under the State Small Business Credit Initiative program.

The American Rescue Plan Act of 2021 (ARPA) provided \$10 billion in funding to the U.S. Treasury Department for distribution to states under the State Small Business Credit Initiative (SSBCI) 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 award of \$87.5 million to Oregon for the current funding round is comprised of the following five sub-allocations:

- Main Allocation (least restrictive on use of program funds) - \$52,092,000
- Very Small Business Allocation (limited to businesses with less than 10 employees) - \$4,142,176
- Socially and Economically Disadvantaged Individual Allocation (SEDI) - \$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 - \$4.0 million

Outside of the funding for technical assistance, the 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:

#### Venture capital programs

Business Oregon Venture Program - \$30 million

- Business Oregon Venture Program Fund: capital investments in existing venture capital funds with fund managers experienced with investing in Oregon.
- Business Oregon Venture Direct Program: contracted fund manager to make direct co-investments in SSBCI approved companies. All invested capital will be required to be invested in Oregon-based companies.

#### Loan participation programs

Business Oregon Re-lender Program - \$9.0 million

- Provides the lesser of 50% of the requested loan or \$125,000 per project for loans administered by financial intermediaries such as Community Development Financial Institutions, Economic Development Districts, and Non-profit lenders to primarily deploy capital in rural communities,

to SEDI owned businesses, or businesses located in or with primary operations in SEDI communities. Cost of funds to the Intermediary will be below market rates.

#### Oregon Royalty Fund - \$12.0 million

- Royalty Loans: royalty payments yielding 1.5-2.0 times the loan amount over a 3-5 year term as a percent of sales
- Angel Loans: interest only loans with maturity of 3-5 years

#### Loan Guarantee Programs:

##### Credit Enhancement Fund - \$32.5 million

- Loan guarantees in the form of loan insurance for the extension of new credit under two facilities: term loans and operating lines of credit. The program is intended to provide increased capital availability to Oregon small businesses resulting in job creation and retention opportunities from business expansion and growth.

##### Technical Assistance Program - \$4.0 Million

- Grants technical assistance providers for the expansion and delivery of direct technical assistance.
- Strengthening individual technical assistance provider organizations internal capacity through opportunities for professional development, access to webinars and trainings, and connections to other state resources.

The performance period for the federal funding runs through December 31, 2031. The funding is intended to be distributed in three tranches. The requested \$26.5 million increase in Federal Funds expenditure limitation is for the first tranche of funding. 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 will be drawn upon late in 2024.

The federal funding allows 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. The proposed spending plan on administration through the end of the current biennium includes the establishment of three loan specialist positions and an operations and policy analyst position at a cost of \$547,764 with an additional \$441,400 in services and supplies costs, including \$300,000 in professional services expenditures for venture fund management and special legal counsel.

**Recommendation:** The Legislative Fiscal Office recommends that the Emergency Board increase the Federal Funds expenditure limitation for the Business Development Department by \$26.5 million and authorize the establishment of four permanent positions (2.0 FTE) for the administration and expenditure of federal State Small Business Credit Initiative program funds.

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Oregon Business Development Department  
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**Request:** Increase Federal Funds expenditure limitation by \$26.5 million and establish four permanent positions (2.00 FTE) to allow for the receipt and expenditure of federal grant funds for the State Small Business Credit Initiative (SSBCI) program.

**Recommendation:** Approve the request.

**Discussion:** In April 2021, the United States Department of the Treasury (Treasury) notified the State of Oregon of an opportunity to apply for allocated funding through the American Rescue Plan Act of 2021 (ARPA). The Oregon Business Development Department (OBDD) provided a 10-day notice of intent to apply for the grant on November 29, 2021. OBDD received retroactive approval to apply for the grant from the Joint Interim Committee on Ways & Means on January 13, 2022. The initial grant application was due on December 11, 2021, and after receiving further guidance from the Treasury, OBDD's final application to the Treasury was sent on February 6, 2022, for \$83.5 million.

OBDD expects to receive the award in three tranches, all of which will have performance periods running through December 31, 2031. During this time, all awarded funds must be disbursed, invested, obligated, or used for eligible administrative costs. OBDD has been informed by Treasury their grant application was recommended for approval and is being presented to Treasury's Review Committee and approval is expected before Memorial Day.

This request for expenditure limitation is for the first tranche of funding and includes four permanent positions (2.00 FTE) for administration of the programs under the SSBCI. The SSBCI programs, under which OBDD will provide funding, are the Credit Enhancement Fund, the Oregon Royalty Fund, the Business Oregon Relender Program, and the Business Oregon Venture Program. No state match was required for this grant opportunity. The expenditure limitation will provide \$547,764 Personal Services for the four positions (2.00 FTE), \$441,400 Services and Supplies, and \$25,510,836 Special Payments.

The Credit Enhancement Fund program provides loan insurance to guarantee new credit extensions made by regulated lenders for term loans and operating lines of credit. The new credit supports the need for increased capital availability to Oregon small businesses and results in job creation and retention opportunities because of business expansion and growth.

The Oregon Royalty Fund is an alternate financing solution for projects that are not yet bankable, which are more like angel or venture capital deals. This program allows businesses to pay a monthly royalty payment as a percentage of sales to accommodate growing companies that do not yet qualify for traditional financing.

The Business Oregon Relender program will be a new program established and administered by OBDD under the new SSBCI grant received from Treasury. OBDD's authority to administer the program is found in ORS 285A.227. The purpose of the program will be to help leverage existing revolving loan funds administered by Community Development Financial Institutions, Economic Development Districts, and Non-profit lenders (Intermediaries) in Oregon to primarily deploy capital in rural communities, to Socially and Economically Disadvantaged Individual (SEDI) owned businesses, or businesses located in or with primary operations in SEDI communities.

OBDD's Venture Program consists of multiple venture capital fund programs within its Innovation and Entrepreneurship section. These programs align with the agency's recently released 10-Year Innovation Plan, which recommends Oregon continue to leverage and expand sources of capital to catalyze the commercialization of new innovations. OBDD staff will use SSBCI capital to reinforce program efforts and expand venture capital investments through a co-investment model. Through the existing Oregon Growth Account, Oregon Growth Fund and Oregon Innovation Fund, OBDD manages a portfolio of venture capital fund managers focused primarily on pre-seed, seed and Series A investments.

**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 \$26,500,000, 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