

ANALYSIS

Item 36: Oregon Business Development Department State Small Business Credit Initiative

Analyst: Michelle Deister

Request: Increase Federal Funds expenditure limitation by \$29,167,717 for receipt of the second tranche of the State Small Business Credit Initiative grant award.

Analysis: The U.S. Department of the Treasury (Treasury) awarded a total \$83.5 million to Oregon in August 2022, to be made available in three separate disbursements. The Oregon Business Development Department (OBDD) received its first disbursement, totaling \$24.5 million, in October 2022. At the time, four positions were approved to help manage grant deployment across agency programs, which is paid for with administrative allowances of 3-5% of grant funds. The majority of that first disbursement of grant funds will have been obligated, expended, or transferred by the end of calendar year 2023, and Oregon is now eligible to request a second disbursement. This \$29 million in additional Federal Funds expenditure limitation is associated with that second disbursement.

Funds are required to be used for loans that support small business start up or expansions for businesses with fewer than 500 employees, and for projects or proposals totaling less than \$20 million. Assistance is targeted to socially and economically disadvantaged individuals. Matching fund requirements are met by the participation of investors or other lenders. The funding is allocated to a variety of OBDD programs for loans to businesses in the following categories: venture capital funds; direct loans; loan guarantees; seed funding for Community Development Financial Institutions, tribal governments, and not for profits who serve as community lenders; and technical assistance including legal, financial, and accounting expertise to businesses owned by socially and economically disadvantaged individuals and very small businesses.

If the request is approved, OBDD anticipates that at least 80% of this tranche of funding will be deployed by late 2024 or early 2025, at which time the agency can request the federal drawdown and associated expenditure limitation for the third and final disbursement of this grant. In total, OBDD anticipates that the total \$83.5 million federal grant award will benefit 1,000 small businesses by 2032, with a goal of creating or retaining approximately 5,000 jobs.

Recommendation: The Legislative Fiscal Office recommends that the Joint Interim Committee on Ways and Means recommend including an increase of \$29,167,717 Federal Funds expenditure limitation for the Oregon Business Development Department in a budget reconciliation bill during the 2024 legislative session for receipt of the second tranche of the State Small Business Credit Initiative grant award.

Request: Increase Federal Funds expenditure limitation by \$29,167,717 for the receipt of tranche 2 funding for the State Small Business Credit Initiative from the U.S. Department of the Treasury.

Recommendation: Approve the request during the 2024 Legislative Session.

Discussion: The Oregon Business Development Department (Business Oregon) is requesting an increase in Federal Funds expenditure limitation to accommodate the receipt of the second tranche of funding for the State Small Business Credit Initiative (SSBCI). In 2022, the U.S. Department of the Treasury approved the deployment of \$83.5 million dollars, over several years, to Business Oregon to fund the following programs:

- Credit Enhancement Fund (\$32.5 million) – a loan insurance program available to lenders to assist businesses in obtaining access to capital;
- Venture Fund Program and Venture Direct Program (\$30.0 million) – programs designed to support equity investments in early-stage, high-growth companies through investing in emerging and existing angel and venture capital funds for Oregon startups;
- Oregon Royalty Fund (\$12.0 million) - an alternate financing solution for projects not yet bankable, but similar to angel or venture capital deals to accommodate growing companies not yet eligible for traditional financing; and
- Re-lender Program (\$9.0 million) - a program aimed at reaching minority- and women-owned businesses, and businesses in rural communities designed to increase funding for re-lenders, increase the amount of capital available to support small business start-up and growth, provide low-cost funding for intermediaries and the businesses they service, and compliment private capital markets.

SSBCI was established in 2010 and reauthorized and expanded by the American Rescue Plan Act of 2021 to provide \$10.0 billion to address the economic fallout of the pandemic and lay a strong foundation for a strong and equitable recovery for programs by increasing access to credit for small businesses.

In 2022, the Legislature authorized Business Oregon to apply for the grant. In October 2022, Business Oregon received the first tranche of SSBCI funding (\$24.5 million) and deployed programs on January 1, 2023. Business Oregon is eligible to draw down the second tranche of funding when 80 percent of the first tranche is obligated, expended, or transferred. Business Oregon anticipates it will meet that requirement by the end of the 2023 calendar year.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 475, section 9(2), Oregon Laws 2023, for the Oregon Business Development Department, Business, Innovation and Trade, by \$29,167,717 for the 2023-25 biennium.

December 4, 2023



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

Dear Co-Chairs:

Nature of the Request

The Oregon Business Development Department (the Department) is seeking \$29,167,717 in Federal Funds expenditure limitation necessary to obtain Tranche 2 of the State Small Business Credit Initiative (SSBCI) award from the U.S. Department of the Treasury (U.S. Treasury). The Department obtained approval from U.S. Treasury to deploy \$83.5 million of funding through the Department's Credit Enhancement Fund (\$32.5 million), Venture Fund Program (\$15 million), Venture Direct Program (\$15 million), Oregon Royalty Fund (\$12 million), and Relender Program (\$9 million).

Agency Action

The Oregon Business Development Department received the first Tranche (\$24.5 million) in October of 2022, began deploying capital through these programs beginning on January 1, 2023, and is eligible to draw down its second tranche when 80% of the current tranche is expended, obligated, or transferred. The Department will have obligated, expended, or transferred approximately \$18 million by the end of calendar year 2023 and will be in position to request the second tranche in Q1 of 2024. Without the authority to draw down funds, Business Oregon will be unable to obtain the second tranche in a timely manner which may disrupt program activity, deal flow, and the Department's ability to meet contractual obligations with U.S. Treasury related to deployment of the capital, jeopardizing future federal funding through this program.

Action Requested

The Department is requesting Federal Funds expenditure limitation of \$29,167,717 necessary to receive Tranche 2 from the U.S. Treasury. No additional positions are required.

Legislation Affected

SSBCI was originally established at the federal level in 2010 and was reauthorized and expanded by the American Rescue Plan Act. The Department was given legislative approval to apply for the grant during the January 2022 meeting of the Interim Joint Committee on Ways and Means, and was subsequently granted Federal Funds expenditure limitation and staffing authority at the June 2022 Emergency Board.

Thank you for your consideration of this important request.

Respectfully,

Sophorn Cheang
Director