

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.
WEDNESDAY, FEBRUARY 18, 2015
BOARD OF DIRECTORS MEETING MINUTES

A meeting of the Providence Economic Development Partnership, Inc. (PEDP) Board of Directors was held at the office of the Department of Planning and Development, 444 Westminster Street, 1st Floor, Providence, Rhode Island, on February 18, 2015. The meeting was called to order at 12:12 PM, with Brett Smiley, designee of Mayor Elorza and PEDP Chairman, presiding. A roll call of the members and PEDP legal counsel was conducted. It was noted that a quorum was present.

MEMBERS IN ATTENDANCE

Members in attendance included Brett Smiley, Chief Operating Officer, City of Providence, and designee of Mayor Jorge Elorza and PEDP Chairman, Joseph Caffey, Juana Horton, John (Jack) Bentz, Mark Feinstein, Gary Glassman, Councilwoman Sabina Matos and William Tracey.

MEMBERS ABSENT

Members not in attendance were Daniel Baudouin, Allyson Cote, Adriana Dawson, and Kas DeCarvalho.

STAFF MEMBERS IN ATTENDANCE

Staff members in attendance included: Kathy Cosentino, Gail McGowan and Arthur Speaks.

OTHERS IN ATTENDANCE

Others in attendance included John J. Garrahy, Esq., Moses Afonso Ryan, PEDP legal counsel; Stuart MacDonald, consultant, City of Providence Department of Planning and Development; Thomas Hoagland, PEDP contract underwriter.

MEETING MINUTES

The minutes of the February 4, 2015 PEDP Board of Directors special meeting were submitted for review and approval. Upon a motion made by Joseph Caffey and seconded by John Bentz, it was voted to approve the minutes of the February 4, 2015 Board of Directors special meeting without any amendments.

Brett Smiley asked if there were any comments or questions. Gary Glassman stated that he had a comment. He is encouraged by what he read of Brett's remarks that we will be an economic development partnership again. We were under the Cicilline administration where the Mayor's vision was put forth and we would counsel the Mayor on how to attain his vision. We did exciting projects back then. One example was the loan to Festival Ballet to buy a mortuary building on Hope Street to transform a place for the dead into a place for young, living dancers. It was the perfect thing to do. Unfortunately a few years later, they could not make their payments and we came up with a plan to have their instructors go into schools and teach in the Providence Public Schools and we put a certain dollar amount to that. It was an example of something where we were being creative. This is a loan that even though we are a lender of last resort, it was done with the benefit of the greater good of Providence. In the last few years, we have essentially been a rubber stamp for the Loan Committee. He is personally not qualified to make those kinds of judgments so he does not feel his purpose on this board has been of value. If we are going to go back to what we used to do, he is very encouraged to continue on the board. Mr. Smiley thanked Mr. Glassman for his comments. The motion to approve the minutes of the February 4, 2015 Board of Directors special meeting then passed by unanimous vote.

REPORT OF THE CHAIRMAN

Mr. Smiley stated that Mr. Glassman's comments were an excellent segue and he would keep the report brief. He is working with the Solicitor's Office now for guidance to make sure we adhere to the appropriate rules around the open meetings laws. The Mayor would like to have either a retreat or

special meeting where we as a board can discuss the future of this agency and partnership to make some of those back to the future decisions or a new way to work together so that this becomes not just a lender of last resort but truly a policy making board, an advisory board where we can help execute on his vision for the future of the city. Mayor Elorza has asked him to organize some place where we can all spend some time discussing the collaboration some Saturday or over dinner one night. Mr. Smiley is working with the Solicitor's Office to make sure that we stay above the letter of the law on how to conceive of that and truly have an open exchange of ideas but that maintains the spirit of the open meetings act. Expect to hear from Kathy soon, or a member of the staff, to try to find a time to schedule that. We look forward to hearing from you all about what those changes need to be so that your time and talents are being used most effectively and that we are entrusting the loan recommendations to those with commercial lending experience for loans and that those with successful business backgrounds and a shared vision for community development and economic development can be advisors to the mayor. That is what you should expect to see over the next six (6) or eight (8) weeks and know that it is high on the agenda.

Mark Feinstein stated that over the last few months, the city council voted to form an economic development planning committee that he understands is for the mayor's economic development policy. We are all interested in what is best for the city and questioned, if it is best, whether we could harness resources before they put together a whole new committee and could we have a true economic development group that advises the mayor as well as the council. Is that a possibility and something to explore? Mr. Smiley responded that he hopes that it is. It is certainly something they are going to explore with council leadership. Having spent the last six (6) weeks doing board and commission appointments, he has a greater appreciation than ever of how many boards and commissions there are. If they are able to find common ground on the goals and constitution of that board, that would be terrific. It is our intention to work as closely as possible with the city council. They have observed the partnership both ways and the city is better served when the Mayor's Office and the City Council work together. They have taken the spirit of collaboration to the Council President and his team. It is something that he is going to explore, but does not have an answer yet. Mr. Smiley appreciates Mr. Feinstein bringing that up.

The last thing he will mention is that we will skip the report of the Executive Director. The Executive Director of this board is Jim Bennett and Jim's last day is Friday. On behalf of the Elorza administration, we would like to express our gratitude for everything Jim did to turn this organization around. He worked through some difficult times with HUD with the support of Stu MacDonald and others. We wish him well on his next endeavor. To update everyone, we have not yet selected his replacement. The position is posted through this Friday. We look forward to introducing you to him or her once hired, but we have not selected the new Director of Economic Development for the City of Providence. That concludes the Chairman's report.

REPORT OF THE EXECUTIVE DIRECTOR

Mr. Smiley stated that there was no report of the Executive Director today.

NEW BUSINESS

The first item under New Business/Existing Loan Requests was the re-presentation of the loan request to Sajo's Gourmet, LLC, Rojwan Sajo, 85 Richmond Street, Providence, Rhode Island, 02903. A loan, in the amount of \$35,000.00 was approved to Sajo's Gourmet, LLC, modified from the Borrower's loan request of \$50,000.00, at the September 2014 meetings. Mr. MacDonald presented the request. The loan was approved by this board and today is administrative. We have been working with the Borrower. He has many entities, some of which we did not know about. We are going to lend to all of

the entities to allow us to be able to disburse the loan funds, with attorney Garrahy's help. We are not changing anything, just the entities in the documents. We have denied some of his disbursement requests because they have had nothing to do with Sajo's Gourmet. The collateral stays the same. In the interest of full disclosure, \$7,000.00 of collateral we are not sure who owns it, but the rest of the collateral is fine. He has another loan with us. He is making payments on the Providence Cookie loan. He claims the business is not defunct because he is making cookies at the new location. Attorney Garrahy stated that you deal with a lot of these issues when you deal with small companies. The loan is back before us because it is not in compliance with the technical when we first made the loan. Unfortunately, it was not packaged in the correct way. Mr. MacDonald stated that we were not aware, but will do a new closing. We did what he wanted. He wanted everything to go to the new entity but he submitted invoices for one of the other entities. A motion was made by Mark Feinstein and seconded by Joseph Caffey to approve the loan modifications to Sajo's Gourmet, LLC as presented. It was questioned how many the Borrower is going to employ. Mr. MacDonald responded that he only needs to create one (1) job. Right now his wife is on the payroll. We are either going to count wife. Mr. MacDonald is working with HUD regarding this issue. HUD had said yes to counting the wife but it didn't work out. We will either count the wife, which means that he already created the job, or he will have to create a job. Mr. Hoagland added that he is not the most sophisticated business man we have dealt with. He does not have a payroll as such when we ask for payroll records. It was questioned if he is making his loan payments. Mr. Hoagland responded in the affirmative. He has been making the payments on the existing loan to Providence Cookie and is sincere.

At 12:26 P.M. Juana Horton arrived at the meeting.

It was questioned whether he has an accountant. Mr. Hoagland responded in the affirmative; the accountant does his tax returns. Mr. Smiley stated that he would entertain a motion to approve changing the ownership to whom we are loaning \$35,000.00, which is agenda item 5.a. Councilwoman Matos stated that she is very encouraged to see we are willing to look at different types of businesses – small businesses. She has several businesses in her area in similar situations that really need help. She is looking forward to us changing how we have been doing business and help businesses that we already have in Providence and not just worry about bringing people in from the outside. Motion passed by unanimous vote.

The next agenda item under New Business entertained by the Board of Directors was the general discussion of the extension of the IIP loans. Mr. Smiley introduced the agenda item and attorney Garrahy presented the matter. Mr. Garrahy began by stating that we dealt with this in April, where some of them matured. Mr. Garrahy provided a brief overview of the program. Betaspring had brought companies that had used it as an incubator. They came here and were provided with \$50,000.00 in loan funds on a convertible basis. The companies had a period of two (2) years to convert to stock. The companies would convert upon a public offering where at least \$100,000.00 was being brought in by other parties and there was a public offering. That was the program and Mark Feinstein can explain more. In April, a lot of them had matured and the matter had come before the board because two (2) years was not enough to convert and really get going. As long as they were still in Providence and still in existence, several of the companies, up until that time, were extended for a period of one (1) year to December 2014. There was a second batch of these companies that matured, many of them in December 2014. The maturity notice went out for the \$50,000.00 plus interest and many called to say what do we do now? Several specific ones are on the agenda later on. The purpose of this agenda item is for a general discussion of the IIP loans and the maturity of the IIP loans and a strategy regarding those that have matured and not converted. None of them have personal guarantees associated with the loans. On the one hand, many we will chase into bankruptcy. Do we have a

strategy to try to enforce those terms or collect the loans? On the other hand, we do not want not do nothing and say do not worry about it because they will not make an effort to convert essentially. It is a policy issue as to how to deal with them. We could just deal with the maturity issue today but Mr. Garrahy wanted to bring up the bigger issue of intended consequences. Mr. Smiley stated that he is interested in a legitimate conversation on this topic to inform us and asked Mr. Feinstein to share his thoughts.

Mr. Feinstein stated that there were two (2) major waves of the IIP loans. The first wave included the commitment to stay in Providence for one (1) year. The thought was that the initial \$1 million would last longer because all of the companies would not take it if they have to stay in Providence and if they did, they would be less apt to move out of the city. The second wave the previous administration put out there that they wanted to fund a second wave and he chaired the committee. The committee extended the time required to stay in the city and decreased the loan amount from \$50,000.00 to \$35,000.00. The first wave was not intended to be just Betaspring companies, it just so happened that we didn't get many applications from the others. Two (2) were not Betaspring. Mr. MacDonald added that one was from Slater and one was outside all of them, which was to Maternova. Mr. Feinstein stated that we need to hear from Alan Tear to get a status update on the portfolio companies. Mr. Feinstein does not know where all these companies are, whether they are still in Providence, still operating or have had an event yet. Mr. MacDonald responded that all four (4) are still in Providence that converted.

Juana Horton questioned if we get quarterly reports from the Borrowers. Mr. MacDonald stated that the monitoring is on-going and that once they meet the requirements it stops. The companies have to create two (2) jobs. We are going to use the Solicitor's Office to get the information from all our Borrowers that are not responding. Mr. MacDonald stated that the question was regarding financial information, which we get annually. There are thirty-five (35) loans. Three (3) or four (4) of the companies have converted. We partnered with Betaspring and the commitment was made to the class. If they came out of the class, we would fund them. Therefore, the money went faster than we thought. It was questioned if the money was a gift or a loan. Mr. MacDonald responded that the documents state they are a loan. It was questioned how many are still open. Mr. MacDonald stated that eight (8) have wound down, three (3) or four (4) have converted, and the rest are chugging along.

Mr. Glassman stated that the loans were basically given to Betaspring, which there were some concerns about. He had concerns regarding that relative to fairness. We need to hold Betaspring to reporting. The big question is going forward, what do we do? He guesses that there is nothing to get if we close them down. The hope is that they will get something going if we give the extension. The question was raised as to what would be done if they come in for more capitalization regarding the twenty-four (24) that are still out there. Mr. Smiley added that there is not much to foreclose on. Perhaps intellectual property, which may not be worth much. Mr. Glassman noted that the reports always look like they are doing incredible. Ms. Horton suggested that moving forward, we need to have a more credible source of reporting. Mr. Smiley noted that there is a general perception that Betaspring is a non-profit, and it is not. Mr. MacDonald provided a brief background to PEDP's partnership with the three (3) venture capital companies. It was not intended that Betaspring would do everything. They are the only one that stepped up to the plate.

Councilwoman Matos stated that her biggest concern with the program is the time it takes to get through the program and trying to bring business here. Can we have a program for small businesses that are already here? Mr. Glassman stated that \$1 million was allocated to the IIP loans and the remaining \$9 million is available to all other businesses. Mr. Glassman also agreed that we should be

supporting businesses that are already here. Councilwoman Matos stated that she is a little frustrated because this is not the first time she has brought this concern to the board. We have been talking about doing something to help businesses here but we have not done it. The process is too difficult. Businesses need a line of credit.

Mr. Smiley stated that the question before us now is what we do with regard to the maturity dates of the loans that we have already made for this specific loan program. Juana Horton made a motion for the extension of the maturity dates. Mr. Caffey questioned whether there was a timeframe and how long of an extension they are looking for. Attorney Garrahy did not know. Mr. Smiley stated that in agenda item 5.d., Revenizer was requesting an additional twelve (12) months but that agenda items 5.c., 5.e., and 5.f. do not state a time period. Mr. Smiley asked Kathy Cosentino if she knew the time period being requested. Ms. Cosentino responded that to her knowledge, none of the companies with requests have requested a specific period of time. She believes that Revenizer requested twelve (12) months because that was what was previously granted to it by the board. Mr. Smiley suggested that we request Alan Tear attend the next meeting and report on the businesses that are still in business and that we consider an across the board twelve (12) month extension to those that received loan funds through the IIP, which will give this Board time to hear an update on the status and think about either a policy for an open-ended continuation or for some way to wind these down in a way that is thoughtful and reasonable for everyone to have ample notice to figure out what their business plan is. Juana Horton withdrew her motion on the floor. Mr. Caffey made a motion to grant an extension of twelve (12) months to those that are eligible and they must stay in compliance with the applicable reporting requirements, which thus far is annual.

Attorney Garrahy questioned whether the companies must remain in Providence. Mr. Feinstein stated that the original term was for the companies to remain in the city for twelve (12) months and they are past that. If they are still in Providence, we can request that they continue to stay. Mr. Smiley stated that his sense is that if they met the requirement for the original loan term to stay in Providence then that expires. It is hard to put an extra requirement on. We want companies to succeed. If they started here and moved after, they have fulfilled their commitment. We will have an equity position in the company and if flourishing, we will have extra dollars to loan elsewhere, which is in our best interest. It is late in the game to add additional strings on residency. John Bentz seconded the motion. Mr. Glassman questioned if we should get something else out of them to put more at stake. Mr. MacDonald stated that for the Notes that have converted, we got stock. However, we won't get paid out until they sell the company. Mr. Smiley stated that if it is the will of the board, as a policy we should consider whether we should do something like this again. Do we try this again or did it not work or not meet all of our objectives? The experiences learned from this process will inform if or how there is a Round Two of this. He is anxious about changing terms now. Mr. Feinstein stated that one of the original objectives to this program was to help develop a start-up community here in Providence. To have a healthy, thriving community, you need a critical mass to succeed. We did not have that critical mass here. Anecdotally, our program did have an impact on that in that community. We are not there yet but we are closer than we were before the program. The motion to extend the IIP loans that matured in December 2014 that are still eligible by twelve (12) months passed by unanimous vote. The extension is conditioned upon the companies staying in compliance with the applicable reporting requirements.

Mr. Smiley questioned attorney Garrahy what the board has to do with respect to agenda items 5.c. through 5.f. Attorney Garrahy stated that he thinks that the motion regarding the general extension covers those items. No additional action was taken relative to those agenda items.

The next agenda item entertained by the Board of Directors was Other Business/Public Comment. There was no items of other business or public comment.

The next agenda item entertained by the Board of Directors was Executive Session. There were no matters for discussion in Executive Session.

Upon a motion made by John Bentz and Juana Horton and seconded by Councilwoman Matos, the meeting adjourned at 12:54 PM.

Approved: March 18, 2015