

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.
SATURDAY, MARCH 28, 2015
JOINT SPECIAL BOARD OF DIRECTORS AND LOAN COMMITTEE
MEETING MINUTES

A joint meeting of the Providence Economic Development Partnership, Inc. (PEDP) Board of Directors and Loan Committee was held at the office of the Department of Planning and Development, 444 Westminster Street, 1st Floor, Providence, Rhode Island, on March 28, 2015. The meeting was called to order at 11:19 AM, with Mayor Elorza, PEDP Chairman, presiding. A roll call of the Board of Directors and the Loan Committee was conducted. PEDP legal counsel noted that a quorum was present for both boards.

MEMBERS IN ATTENDANCE – BOARD OF DIRECTORS

Members of the Board of Directors in attendance included Mayor Elorza, Chairman, Brett Smiley, Chief Operating Officer, City of Providence, and designee of Mayor Jorge Elorza, Joseph Caffey, Juana Horton, Daniel Baudouin, Allyson Cote, Sussy DeLeon, Stephen DelSesto, John (Jack) Bentz, Adriana Dawson, Mark Feinstein, Gary Glassman, Councilwoman Sabina Matos .

MEMBERS ABSENT – BOARD OF DIRECTORS

Members of the Board of Directors not in attendance were Kas DeCarvalho and William Tracey.

MEMBERS IN ATTENDANCE – LOAN COMMITTEE

Members of the Loan Committee in attendance included Brett Smiley, Chairman, Frank Benell, Doris Blanchard, Donald Gralnek, and Daniel Murphy.

MEMBERS ABSENT

Members of the Loan Committee not in attendance were Renee Bailey and Carmen Diaz-Jusino.

STAFF MEMBERS IN ATTENDANCE

Staff members in attendance included Kathy Cosentino.

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; and Dan McGowan, WPRI.

Mayor Elorza thanked the board members for their service to the city and for making themselves available this Saturday. Mayor Elorza looks forward to doing some great work over the next few years.

Brett Smiley requested that the members and staff conduct introductions and also provide a brief business background. The introductions were completed.

NEW BUSINESS

The first agenda item of New Business entertained by the Board of Directors and Loan Committee was the review of the PEDP financials. Mr. Smiley introduced the agenda item and Stuart MacDonald presented the financials. Mr. MacDonald stated that the financials are internal financials and not audited financials. The audited financials can be view on the city's portal. PEDP has cash on hand in the amount of \$1.9 million. PEDP's net loans are in the amount of \$12.8 million. Most of the loans are revolving, except for the 108, therefore \$10 million is revolving. The 108 is a \$10 million line of credit that is expiring this September. We have to either get an extension or lend it out. It was requested that Mr. MacDonald provide a background to the Section 108 program, which was provided. Questions were raised and answered relative to the sources of funds, the uses for each funding source, the scope of the audits, the assignment of loss reserves and whether PEDP can initiate projects. Mr.

MacDonald concluded that as of December 31, 2014, PEDP has \$1.9 million available to lend, which is the cash on hand and does not include the money available under the 108. Mayor Elorza requested that the directors make themselves very familiar with the financials.

The next agenda item entertained by the board and committee was the role of the Board of Directors and Loan Committee. Mr. Smiley stated that the understanding is that the Loan Committee is seated with those that are best to review the loans and that the Board of Directors is seated with a diverse group of professionals. It has been his experience over the last eight (8) weeks that there is a lot of duplication, which may be good. The goal here is feedback and recommendations for what should be for the future. A brief history was provided of the organization of the board throughout the previous three (3) administrations. A discussion followed with regard to what roles and responsibilities the board and committee should have. Some expressed the desire to have the loan committee vote count and not require board approval and others expressed that it is beneficial for the board to have a role in those matters and that it is more a question of balance.

Mr. MacDonald stated that a lot of time was spent changing the by-laws. In the past staff could approve loans up to \$75,000.00, the Loan Committee would approve loans up to \$150,000.00 and everything after that went to the board. We had some problem loans and the by-laws were changed to have the Board of Directors have involvement because of the HUD audit and for disclosure of the loans to the board. We wanted the board to be aware of the loans and have some authority. We probably went too far the other way in terms of transparency. Attorney Garrahy added that the concern was before that the staff had the authority to approve loans up to \$75,000.00 and those loans the board would never see. The Loan Committee would approve all other loans, which would be ratified after-the-fact. The board, as the Board of Directors, has a fiduciary responsibility to oversee the affairs of the PEDP. In fact, the board was never seeing some of the loans it was approving. The changes to the by-laws were made as a result of a bad loan or bad publicity. It was an attempt to have a board with some expertise to review the loans thoroughly with the intention that board would see the loans and have some oversight. The PEDP absolutely has to have a balance. There also has to be some understanding that the board knows what is going on at the Loan Committee level. A discussion followed with regard to the criteria for the review for each board and the loan review process.

It was expressed that PEDP has not identified how many loans were denied and why. It was questioned what kind of safety net is provided to those Borrowers and what types of resources do we need to connect with for those that do not qualify to offer to them in order to prepare them to become viable loan recipients in the near future.

Mayor Elorza summarized the next steps for resolution. Mayor Elorza stated that it was almost unanimous that there is an appetite, willingness and capacity to take on a larger visioning role around economic development. Mayor Elorza stated that it was unanimous or broadly shared that there be a clearer division of responsibilities between the Board of Directors and Loan Committee to lessen duplication and rubber stamping. In the strategic role that the Board of Directors would play, the Loan Committee would be a small portion. The board would be reviewing loans 1) to see if they are a part of the strategic vision and whether they fit in to the areas we decided are right for investment and 2) for services available for those that fall into that strategic vision but do not have the capacity. The second part of reviewing the loans would be to see whether they make sense and that: a) we have the funds for lending; and b) the project falls within our priorities. Mayor Elorza stated that the next steps are to bring some clarity to that. We will review the by-laws to see if they need to be changed to conform to that. There will be a conversation between the administration and the board in order to best utilize the time and talent of the board. Questions were raised regarding the economic development group

established by the city council and regarding the previous micro-loan program.

The next agenda item entertained by the board and committee was strategies to lend more. Mr. Smiley stated that we have cash on hand to lend and not a line out the door to apply. We are now going to turn the conversation from the macro to micro. It was expressed that there are companies that fall through the cracks that do not come through the accelerators. It is a great role the board can take on by starting to appeal to those that have a vested interest in this community, which is being overlooked. There are tremendous entrepreneurs that do not fit into an accelerator.

It was expressed that we could do more with partnerships with different organizations to see what is the best way to provide access to capital. Education is key. Mayor Elorza stated that might be an expanded role for the Loan Committee to be in the schools and the Providence Career and Technical Academy (PCTA).

It was expressed that applicants that get denied and do not get help afterward. We are willing to take a chance with those not in the city and we should take the same chance with those already here. Businesses really need a line of credit. The process takes too long and the businesses need access to capital sooner.

It was expressed that the mentor/protégée model works. It starts to create a community with assets that come out of the program. Mayor Elorza stated that this is something that the administration is very interested in doing and will keep this conversation growing.

Suggestions were expressed for future growth, which were that we should be encouraging the collaboration between the private and public sectors through strategic private-public partnerships. We have the Social Enterprise Greenhouse, Betaspring and the Hatch [Entrepreneurial Center] downtown that have the ability to work with the SBA and SCORE. Businesses need to have financial literacy, which is a huge component of being a sound businessperson. This is lacking in all school levels. Concentration limits should also be set so that the PEDP portfolio is diverse. If the funds being provided are grants, then we should call them that because we are not teaching the Borrowers to be sound business people if we forgive that debt with zero repercussions.

It was questioned if we could put all of the resources available in one place, into a database utilizing all of the resources' information. It was questioned if the micro-loan is something that could be brought back but only if the applicants have gone through Hatch or CWE. Mr. MacDonald responded that most of the loans that we are talking about (micro-loans) do not qualify under the HUD guidelines as they do not meet those standards. Mayor Elorza stated that there is a lot we can do to make them qualify later on. It was questioned if we can partner or out-source through others that do the same type of lending. It was responded that the answer previously has been in the negative. It was suggested that we look for groups, non-profits, and go out with a RFP for those groups to provide services and use our funds to finance that to a certain level. Concern was expressed that there are many organizations in the city that provide these services and that it is very important that we vet these entities before we partner with them. It was questioned how we would know that we are getting what they are saying that they are providing and that they are successful. We would need to see statistics. We would need to look at qualifications and requirements. They would need to be both qualified and have a proven record. We could have a website to list those that are vetted and approved and also the programs that have shown that they are effective. Mayor Elorza stated that we can do anything, but we cannot do everything. We have to be strategic regarding what we take on. It was expressed that the start-up community has to have resources to grow and succeed. The resources can be identified and reviewed.

There is a whole litany of tools that they need and we can vet.

It was suggested that for those that are in default in the current portfolio, that we look at what happened and that they come back for relief or to re-amortize. We may be able to provide services and/or support at that point to ensure the successful outcome of that company besides just restructuring the debt. The default rate of the micro-loans was acknowledged. It was expressed that support of businesses and what they need is lacking right now.

Mayor Elorza stated that there is a lot of room for an expanded role and noted the following ideas from this discussion that merit more thought: 1) providing help to businesses not approved for loans with capacity building so that they are in a much stronger position for a loan down the road; 2) being really intrigued by promoting greater financial literacy in schools and an expanded role that these groups here can play; a big theme of schools will be to integrate them in other areas of the city and if anyone is interested in an expanded role in the schools, please let us know; 3) the mentorship and protégée function has been seen to be very successful and can make all of the difference between success and failure as a business, especially when you have a good idea but do not have business sense; 4) the establishment of concentration limits of funding by industries should be looked at; and 5) we need to do a better job marketing and packaging our loans and services to get to a true one-stop shop. Mayor Elorza also noted the following two points: 1) the opportunities on micro-loans and that there is still a lot more we can do around them; and 2) doing a better job of leveraging and partnering with the right organizations to make sure that we get a better bang for our buck – literally and figuratively – and that these resources are available to the business owners in the city. There is so much to explore and to do.

The next agenda item entertained by the board and the committee was special programs/target sectors. Mr. Smiley stated that this agenda item speaks to concentration limits and to the IIP. There will be no formal action today, just consideration of specific set-asides. The council has engaged a cluster analysis for growth opportunities.

It was expressed that we have a wealth of resources that we have to market better. We need to bring them together. We do not need to just talk about it, we need to do it and we need to do more. The trade schools were noted for example and that we need for the students to have careers when they are done and are not just a drain. It was also noted that the development of a start-up community was identified as important. A critical mass is needed in order for them to be successful. It was also recognized that we do have a drain as they tend to leave. These companies do not have collateral, so we came up with the IIP and the convertible note that converts to equity. Getting people to stay here is a big piece of the agreement. The IIP recipients had to agree to twelve (12) months and the discussion of the second round of funding was of increasing that to two (2) years. The thought was that if they put roots down, they would be more apt to stay. We are keeping more people here. Mayor Elorza stated that he is in the process of putting together a task-force to explore how we target millennials. This is important to look at as part of the brain-drain. It was expressed that with the IIP, it is easy to get \$50,000.00 from the city, which is not so for businesses in the area, which looks like it is unfair. It was noted that at the next board meeting the board is getting a report on the IIP to see if there was success in the program. Mr. MacDonald noted that we reached out to Betaspring, who did not want to participate, so staff is doing the reporting ourselves. It was questioned what we are doing to attract investors and social impact investors that are not necessary tech-companies.

It was noted that there is fragmentation in the community and that there are a whole lot of different groups advertising the state and its cities. We are not educating our kids as they do not understand the financial aspects of running a business. We have to start from ground up and start at the bottom with

kids and training, noting that the PCTA is underutilized and that the drop-out rate is atrocious. In the last legislative session, three (3) groups were in support of the CT (career and technical) Program, which were private and public groups to administer these programs. The groups are looking at setting up six (6) different schools throughout the state, which they have been trying to do for the last five (5) years and were finally successful. Mayor Elorza questioned if everyone has toured the PCTA and noted that anyone has not, that it is great to see. He would like to see more integration with what is happening with the public schools. It was further noted that Worcester Tech is probably one of the most premiere schools in the country, which took ten (10) years to create and is a great facility. Ours is not going to happen overnight and it needs some help. Mayor Elorza noted that it is a phenomenal school. It is still underutilized and there is opportunity there.

It was expressed that the IIP was conceived in the right way. It was a strategic mistake in handing it over to Betaspring. There are many other organizations that could have applied. It was noted that the arts and its impact on quality of life cannot be underestimated. It has a huge economic impact and elevates the spirit. It is intangible and has incredible value in creating community spirit. Mayor Elorza noted that we punch above our weight in arts and culture.

It was expressed that we have to be mindful of our non-English speaking or limited-English speaking ability of our entrepreneurs and that not everyone has access to technology. The safety-net for those entrepreneurs was questioned. It was added that the level of cultural competency is equally as important. Mayor Elorza noted that there are two (2) parts to translation: 1) that it is translated correctly; and 2) that the message translates correctly, which is cultural competency. It was questioned whether PEDP has a website and noted that it could be in different languages.

Getting back to the balance sheets and lack of applicants, it was stated that we are either not getting the message out or the business community is not robust enough to know that they can reach out to the city. We need to figure why what we are doing is not working. We need to start from a position of strength. Mayor Elorza stated that he heard from people that they either write-off the program due to process, paperwork or length of time.

Mayor Elorza then discussed the Abandoned Properties Program, which he sees as a jobs program. There are 600 properties that have been vacant for five (5) to seven (7) years. Mayor Elorza wants to rid the city of every abandoned and boarded up property. He is raising private-sector funds for the program and there may also be some public funds. The contractors can then draw upon those funds to make payroll and buy supplies, through loans on contract or on their good faith and credit. Mayor Elorza is very excited about the program.

Mayor Elorza and Councilwoman Matos were thanked for what they are already doing and their initiatives. It was noted that we have to re-invent, be creative with capital and break down barriers.

Mayor Elorza stated that he wanted to finish off by saying that the fact that something has not been done in the past means simply that and not that it was not wise to do in the past or cannot be done in the future. Mayor Elorza looks forward to the work that we are going to do over the next four (4) years and hopefully eight (8) years. Mayor Elorza stated that he wants a direct line of communication with the administration and the board. Brett is his designee on this board, who has direct communication with him every day and by extension is Mayor Elorza's direct contact with these two (2) boards.

Mayor Elorza stated that a major theme in his administration is innovation and creativity. It is not a criticism of anything that came before but an attitude for everything going forward. No matter how mundane or new a task is, we can do it better – every time and every way. He hopes that this is the

attitude on these two (2) boards and looks forward to work we are going to do as a board.

Mayor Elorza thanked everyone and truly appreciates their time.

Upon a motion made by Mark Feinstein and seconded by John Bentz and Joseph Caffey, the meeting adjourned at 1:16 PM.

Approved by PEDP Board of Directors: April 22, 2015