

**INFORMAL SESSION MINUTES**

**January 28, 2013**

1:00 p.m.

Commissioners' Office Conference Room

PRESENT: Commissioners Kathy George, Mary P. Stern, and Allen Springer.

Staff: Laura Tschabold, Chuck Vesper, Christian Boenisch, John Phelan, Bill Anderson, Tonya Saunders, and Mike Green.

Guests: Nathalie Hardy, News-Register; and Jody Christensen, GROW Yamhill County.

---

\* indicates item forwarded to formal agenda

Kathy called the meeting to order at 1:04 p.m.

Revolving Loan Fund - Jody Christensen stated that one of the deliverables for the GROW Yamhill County Project was to look at the county's revolving loan fund, review the current loan criteria, and make recommendations for improvement. She said that the loan fund hasn't been accessed by local businesses in quite some time due to the outdated criteria. She reviewed background information, current limiting factors, and the changes recommended by the Council of Governments (COG) (see Exhibit A).

Kathy said that she would prefer a shorter loan term than 120 months, although she would be fine with an amortization schedule based on 120 months and a balloon payment due at the end of the shorter loan term. Allen agreed, suggesting a 4% interest rate for both startups and bigger companies for a term of three to five years, which provides an incentive for early payback. He said that the Board could review the loan at the end of the term and decide to renew it at a higher interest rate if appropriate. Jody stated that COG is the technical expert and it was a laborious process to get to this recommendation, but she would document the Board's concerns and share them with COG immediately. Mary said that the Board would work with Laura to set a date for COG to come and discuss the loan fund.

Allen stated that if businesses really start using the loan fund, the Board might be able to funnel more funds into it. Jody stated that the next GROW meeting would be about video lottery dollars, so she wants to make sure the group is aware of any concerns or commitments the Board might have regarding those funds. Mary stated that if state funds don't come in for the county's match commitment on the bypass, video lottery dollars would be a potential source, and the Rails with Trails project may also need some of the funds. She said that establishing a granting process for the video lottery dollars is the most important thing.

The meeting recessed at 2:13 p.m. and reconvened at 2:20 p.m.

\* Personnel - Approve the change of status of Irma Del Rayo Saldana to bilingual Office Specialist 2 in HHS Public Health, regular full-time, Range 7, Step 1, effective February 12, 2013.

- \* Transit Funding - Approve the following §5310 Discretionary Grant Program allocations for 2013-15, as recommended by the Special Transportation Fund (STF) Advisory Committee:
  - a. Yamhill County Transit Area, \$651,032 for general operations;
  - b. Mid-Valley Rehabilitation, \$20,644 for preventive maintenance;
  - c. Abacus, \$2064 for preventive maintenance;
  - d. Oregon Mennonite Residential Services, \$8256 for preventive maintenance.

Tonya Saunders presented the recommendation from the STF Committee. Allen stated that he had been present for the discussion and felt that it was a fair and equitable method of allocating the funds.

Blue Sign Policy - The Board discussed the proposed policy and changes made since it was first presented in the fall. Kathy suggested that existing signs not meeting the new criteria be removed and returned to the business owner along with a refund. She said that this would avoid discrimination issues and minimize sign clutter, which is one of the purposes of updating the policy. The Board agreed to make the effective date of the policy March 15, 2013, with the annual renewal fee due each March 15.

Kathy stated that the Road Improvement Advisory Committee had expressed concern about temporary sandwich boards. John Phelan said that he isn't concerned about those since they're typically only up for the weekend. He stated that he may come to the Board in the future with a loan request to jumpstart the kiosk program, rather than only doing one kiosk per year with sign revenue.

Minutes - Mary moved approval of the following minutes. The motion passed with Kathy and Mary voting aye and Allen abstaining.

**B.O. 13-56** - June 18, 2012, informal session

**B.O. 13-57** - October 15, 2012, informal session

Mary moved to amend her motion to change the wording on the first page of the June 18 minutes, regarding the Veteran Services budget, to the original draft version. The motion passed with Kathy and Mary voting aye and Allen abstaining.

- \* See formal session agenda for formal session minutes to be adopted.

- \* Contracts/Grants - See agenda for details.

- \* Consideration of a salary increase for Mike Brandt, Planning Director.

Mary stated that Mike has refused a raise for many years and, despite accepting a 5% increase last year, is still well below the comparable counties. She said that with Mike's 30+ years of planning experience and success in managing his budget and staff, he is looked at as a resource by the state and by other counties. She said that a 10% increase would get him close to being in line with comparable counties. She added that Mike also manages the Solid Waste Division, which many other Planning Directors don't, and he oversees two active landfills, so the

county is getting a real bargain.

Kathy stated that Mike deals with many development issues that set precedent for the law, and his leadership has made Yamhill County one of the best counties in the state for businesses to work with. She said that if Mike were to take a position somewhere else, Yamhill County wouldn't be able to hire someone of his quality for his current salary. She said that he wouldn't accept the increase if he can't afford it in his budget. She said that Mike has operated a lean budget and made cuts as needed, and proper remuneration is not adding to the bloating of government.

Allen stated that he likes Mike, but it is difficult for him to support a 10% raise one year after a 5% raise, given what's happening in the private sector. He said that he and the other commissioners did not accept a raise for that reason, and he stands by those principles. He said that Mike will leave county employment at some point, and this is a great time to be head-hunting because of the economy. He stated that the individual is never more important than the business, and there are a lot of great things about working for Yamhill County.

Kathy suggested coming up with some different options to discuss at the formal session on Thursday. The Board agreed to put the item on the non-consent agenda.

Surveyor Position - Mary stated that Rick Sanai hasn't heard back from the Secretary of State's Office yet. Allen said that he is disappointed with Dan Linscheid's treatment of the commissioners in leaving office, and he disagrees with several comments made in Dan's letter of resignation. He said that Dan's statement that the commissioners should honor the voters' intent is inconsistent with his previous request that the Board make an exception for him and waive the term limits. Mary stated that the commissioners felt comfortable waiving the term limits in this case because the new law made the position an appointed one. Allen agreed that the commissioners did the right thing and said that he has nothing personal against Dan, but was disappointed in his exit strategy.

The meeting recessed at 3:30 p.m. and reconvened at 3:40 p.m.

Investment Policy - The Board reviewed the draft policy presented by Mike Green and agreed to have him submit it to the State Treasurer's Office for review at its April 15 meeting. Mike noted that the county's current policy restricts investments to a duration of 18 months or less, so the county hasn't been able to take full advantage of what the state allows. He said that he expects push-back from the state on a few of the policy changes, and will review the state's comments with the Board when he gets them. He stated that the policy should be reviewed annually after the end of each fiscal year.

Following commissioner updates, the meeting adjourned at 4:44 p.m.

Anne Britt  
Secretary



## Mid-Willamette Valley Council of Governments

To: Yamhill County Board of Commissioners  
Date: January 24, 2013  
From: Suzanne Dufner, Community Development Director and  
John Safstrom, Loan Program Manager  
Mid Willamette Valley COG  
Re: Yamhill County Revolving Loan Fund Program

---

### **ISSUE:**

Yamhill County is seeking assistance from the COG on how to increase utilization of its Economic Development Revolving Loan Fund (RLF) Program.

### **BACKGROUND:**

In June 1985, the Board of Commissioners of Yamhill County established a revolving loan fund program for the purpose of creating new employment opportunities and providing a stimulus in the expansion of existing businesses, or aid in the creation of new business activities. The fund was originally capitalized by a Community Development Block Grant (CDBG) that Yamhill County loaned to a local industry for business expansion purposes and was repaid with interest to the County (YCBOC Resolution No. 85-6-12-1). Yamhill County continues to administer and operate the Yamhill County Revolving Loan Fund (YCRLF) Program today. The estimated balance of the YCRLF maintained by Yamhill County is \$191,000.

In February 1991, Yamhill County Board of Commissioners provided \$33,000 in cash from the Yamhill County Revolving Loan Fund (YCRLF) to the Mid-Willamette Valley Council of Governments (MWVCOG) to leverage a \$300,000 grant from the U.S. Economic Development Administration (EDA) for the purpose of recapitalizing the regional revolving loan fund (See YCBOC Resolution No. 91-2-6-2). MWVCOG maintains a separate account for the Yamhill County EDA RLF matching funds, which currently has a balance of approximately \$49,000. These funds may only be lent out to businesses in Yamhill County in accordance with the EDA loan criteria described in the Mid-Willamette Valley RLF Administration Plan. MWVCOG records indicate the Yamhill County EDA RLF matching funds have been lent out to approximately three (3) businesses in Yamhill County. All of the businesses have paid their loans back in full.

On October 31, 2012, MWVCOG staff and Yamhill County met to discuss how these funds can be better utilized to support business development in Yamhill County. Suggestions on how to achieve this goal are described under the "Recommendations" section below.

## **SMALL BUSINESS LOAN PROGRAMS AND JOB CREATION:**

### How are jobs funded?

Businesses can grow and create jobs by accumulating cash for working capital to hire employees, to purchase inventory and for all the costs to provide a good or service. Cash for working capital comes from three sources: retained earnings from the business, borrowing from lenders and cash from outside the business invested as equity.

Banks, credit unions and private parties are sources of business loans. However, during difficult economic times the advance rates are lowered or credit is not extended at all. A lower advance rate means the borrower must use the business cash to fill the gap between what a lender will lend against the type of collateral pledged for loan. When you think of this gap, think of a "down payment".

### **Factors that limit access to business credit:**

- Typically lines of credit for working capital are the first loans limited by lenders. These loans are essential for working capital and often critical to hiring new or retaining employees.
- The advance rates for equipment and real estate loan purposes are also lowered. Again, if equipment and or real estate purchases are critical for a businesses' growth or competitive position, the managers must weigh between using cash for working capital or using cash for a fixed asset purchase.
- Many businesses have reported losses or narrow profits in 2009, 2010 and/or 2011. Lenders require a historical ability to pay existing and proposed loan payments with a sufficient cash margin.
- Some businesses have given up applying for business loans considering the economic trends and bank lending requirements.
- Some banks have limited loans to businesses in professional, commercial or industrial sectors that are survivors of the adverse economic trends and show strong management abilities; not start-up or earlier stage businesses.
- And, lenders are more likely to pursue loans from businesses in metro areas versus rural communities; and, prefer to finance newer buildings and equipment with a longer economic life and active re-sale markets.
- The dilemma of investor/income property real estate loans versus the "owner occupied" real estate loans. Owner-occupied borrowers are more likely to get financing than income property owners, or their tenant's businesses seeking loans for improvements. And, for either owner-occupied or income property borrowers financing is very difficult for special purpose property (property other than warehouse, manufacturing and commercial office or retail buildings).

### What can be done?

When Yamhill County businesses are planning an expansion with the purchase of fixed assets, ask the business owners and their lender or lenders to consider using the County's revolving loan fund program or one or more of the other available public sector loan programs to fund part of the gap between the

cost and the bank advance rate. These businesses can then use their cash for working capital to create jobs.

When a business chooses to move to Yamhill County, the County's loan program can lend the business the hard to fund expenses associated with the move. The County's loan program can also be used in participation with lenders and possibly other public sector loan programs to fund fixed assets, again saving working capital for job creation.

#### The larger view.

"Project by project". Demonstrate to the lending community and business owners that the County can perform. Success brings more investment from business and commercial property owners and, more important for lenders, is the perception of long term community commitment.

"There is nothing wrong about asking businesses how much they are willing to invest." Support projects where and when the business owners will work hard and bring their expertise and cash equity into the project. Look for businesses with an investment strategy, looking at long term by investing in the community.

#### Yamhill County's Revolving Loan Fund

The County's Revolving Loan Fund for business loans was established to fund critical gaps in financing businesses located in the County. Businesses have used the loan program to fund projects that banks would have not otherwise participated in the financing these businesses. The initial capital base of the County's loan fund has grown and may be recapitalized at a later date with the capacity to fund larger loans and more of the gap in the individual financing structure of new proposals.

#### RECOMMENDATIONS:

Considering the current economic and financing environment, the Yamhill County Revolving Loan Fund is an economic development tool that can make more of a meaningful difference with some program changes. The following changes are recommended for consideration:

- **Loan Size:** Increase the maximum RLF loan size from \$100,000 to \$250,000 or \$300,000. The MWVCOG's three direct loan programs that are similar to the County's loan program operate with maximum loan amounts of \$200,000, \$250,000 and \$300,000. Further analysis shows the average RLF loan sizes in the last ten years have increased and the trend is for \$150,000 or greater loan amounts. The typical financing request is for \$350,000 to \$500,000, of which the MWVCOG finances 40% or between \$140,000 and \$200,000. However, more \$250,000 loans have been funded. The larger loan requests are usually only a piece of a much larger financing structure that includes bank loans are participating with one or more public sector RLF loan program to fill the advance rate gaps in the bank's loan. Two economic realities are addressed with a larger County RLF program loan size: one is the impact of inflation since the loan program rules were set in the 1980's—buildings and equipment cost more and working capital costs have

increased; and, two, after the recent economic downturn the bank advance rate gaps for the borrowers are common, almost anticipated, and working capital loans or lines of credit are scarce and/or not adequate amounts for growth.

- **Participation Rate:** Increase the County's loan program maximum percentage of a project's participation in a project from to 40%. 40% to 50% are the participation percentages allowed in most of the public sector loan programs, such as the MWVCOG direct loan and intermediary loan programs (intermediary programs include the SBA 504 and the State of Oregon Business Development Loan Fund loan programs). Two considerations: first, the overall County's RLF loan program's portfolio percentage of leveraged private sector funds will not likely significantly change because larger financing projects generally bring in more private sector funds that increase the matching percentage. Secondly, concerns that the County's collateral margins are diminished (from 20% to 10%) are off-set by likely loan conditions for additional pledge of security for the earlier stage businesses; or, for later stage or more mature and stronger business borrowers, debt service ability mitigates this risk with stronger historical cash flow.
- **Interest Rates:** Referencing individual RLF loan interest rates to an index (such as the Prime Rate: the 3, 5, 7 or 10 Year Treasury Rates; or the State of Oregon Investment Fund), minus a percentage point spread to the index, has become problematic with our current lower rate environment. It is also problematic to set individual RLF loan interest rates by adding percentage point spread to an index should an inflationary environment occur. A suggested alternative may prove to be a more flexible policy—set RLF interest rates on a loan by loan basis. First set a minimum program interest rate (4%), which is similar to the Economic Development Administration and Rural Development programs' minimum RLF interest rates. Then, for startup companies and earlier stage businesses, consider setting a RLF loan interest rate that lowers the total interest cost to the borrower using the minimum RLF rate, that combined with the participating lender's market interest rate lowers the overall interest expense for the borrower. Example: bank effective interest rate (3 or 5 year Treasury plus 3.5%) is about 5.7% to 6% combined with a RLF 4% loan could be a 5% overall interest expense. Or, for stronger borrowers that are using the RLF loan to fill an advance rate gap (using cash from the borrower to fund 10% with the County's funding 40% and the lender funding 50% for a combined 90% advance rate), setting a RLF interest rate that matches the participating bank's initial interest rate. Using the alternative flexible interest rate policy two goals are met: businesses get financing that preserves the businesses' cash for growth and job creation; and, the RLF's program interest income is realized to relend to more businesses.
- **Borrower Certification Documentation updates:** Most public sector loan programs include a borrower's certification document at closing or with the loan application (also signed by the lender's representative) that states the loan program eligibility rules and conditions of the loan program (see the following Eligibility Certification form). This format provides an audit trail for when the loan program is audited that shows the governing Federal conditions are addressed in the loan application. This document can be updated as the program rules change; this is the

manner in which all of the COG managed or intermediary loan programs address this matter. Please note that one of the certification items covers potential or actual conflicts of interest.

- **Eligibility:** Yamhill County Revolving Loan Funds (RLF) are currently offered to all businesses in Yamhill County. Yamhill County may want to consider targeting these funds to manufacturing and food processing related businesses in Yamhill County, based upon the limited amount of funds available. Manufacturing and traded sector businesses tend to have a greater economic impact on the local economy than do most commercial retail and service businesses. **The County may also want to include language that would allow exceptions to this policy for projects that have a significant economic impact.**
- **Job Creation:** Consider increasing the job creation requirement to one job for every \$50,000 loaned from the current one job per \$7,500. This suggested increase is consistent with the Mid-Willamette Valley Revolving Loan Fund portfolio average per job. The SBA 504 program maintains an average cost per job ratio of \$65,000 and the State of Oregon Business Development Fund (OBDF) maintain an average cost per job ratio of \$35,000.
- **Term/Amortization:** The current Yamhill County RLF specifies a loan term and amortization of not greater than 120 months. COG lending staff suggests changing this to a negotiable longer amortization period (to allow lower payments), but a loan term or maturity of not greater than 120 months (at the 120 month maturity date a balloon principal payment owed). Amortization refers to the number of months it takes the borrower to pay off a loan, while the loan term or maturity refers to the length of time the borrower is committed to repay the entire loan to the lender.
- **Loan Review Procedures:** Work with the COG to create a streamlined loan application review and approval process with a goal of accommodating a 10-day turnaround response from date of a complete loan application. Suggested loan review procedures may be found in Attachment 2. Upon preparing a set of final loan review procedures, the COG will draft an agreement for loan administration services provided by the COG to Yamhill County.

- Attachments: 1. Sample Eligibility Certification  
2. Yamhill County RLF Review Procedures

ELIGIBILITY CERTIFICATION

Borrower: \_\_\_\_\_

WE HEREBY CERTIFY:

1. For the Borrower listed above and certified below, the Lender or its principal officers (including immediate family) do not hold any legal or financial interest or influence in the Borrower, and the Borrower or its principal officers (including immediate family) do not hold any legal or financial interest or influence on the Lender except as described below in writing.
2. The Borrower listed above and certified below is eligible under the Yamhill County Revolving Loan Fund Program, and the proposed loan complies with all applicable statutes and regulations.
3. The Borrower, as identified above and certified below, is unable to finance the proposed project from its own resources or through commercial credit or other Federal, State, or local programs at reasonable rates and terms.

FOR: Yamhill County \_\_\_\_\_

Lender

FOR: \_\_\_\_\_

Borrower

\_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
Date: \_\_\_\_\_

\*\*\*\*\*

I HEREBY CERTIFY:

- A. In accordance with the provisions of the Debt Collection Improvement Act of 1996 (Public Law 104-134), I certify that neither the above-named applicant nor any of its principals, affiliates or subsidiaries thereof, is delinquent on any Federal debt.
  
- B. In accordance with the Yamhill County Revolving Loan Fund developed by the Lender, the Borrower, as identified above and certified below, will, to the maximum extent possible, strive to employ at least X percent (X%) of its workforce from members of families with income below the poverty line.

\_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
Borrower

## ATTACHMENT 2

### Yamhill County Revolving Loan Fund

#### Procedures

- 1) Initial consultation: The applicant, prior to applying for the Yamhill County RLF Program, will meet with a COG Loan Officer to discuss a potential loan application and determine consistency or the borrower's eligibility to borrow from the program. Application materials and submittal requirements will also be explained.
- 2) Application submittal/review: Upon submittal of an application, the COG will review the application and determine if all of the necessary information has been submitted. The applicant will be notified of any deficiencies in the submittal.
- 3) Credit analysis/recommendation: Upon submitting a complete application, the COG will prepare a credit analysis report with a recommendation for the COG Revolving Loan Fund (RLF) Board.
- 4) COG RLF Board review/loan approval: The COG RLF Board reviews the COG credit analysis report and makes a final decision on the application and the appropriate loan interest rate.
- 5) Yamhill County review: A copy of the RLF Board recommendation is sent to the Yamhill County Board of Commissioners for review and concurrence.
- 6) Loan documents: The COG prepares draft loan documents for the County's review and approval.
- 7) Loan closing: The borrower signs final loan documents. Original loan documents (exempt from FOIA) are kept on file at the County Attorney's office.
- 8) Loan payments/accounting: The County Finance Department will collect and account for loan repayments. Loan payments will be set up to be received by ACH. Loan "work outs" will be handled by County staff with advice from legal counsel and the COG.
- 9) Loan servicing activities: The COG will provide loan servicing activities including: monitoring and verifying the provisions of all loan agreements, maintaining current documentation of insurance and tax payments, collecting and reviewing financial statements from the borrower on an annual basis.