

MINUTES

Mayor's Sustainable Business Initiative Task Force
Roundtable on Finance and Funding for Sustainability
Bascom/Tykeson Room—Eugene Public Library
Eugene, Oregon

October 18, 2005
1:30 p.m.

PRESENT: Rusty Rexius, Mayor's Sustainable Business Initiative Task Force Co-Chair; Hank Hoell, Mitch Hagstorm, Scott Pope, Laurie McClain, Bob Warren, Jim Lindley, Chuck Forster, Shawn Winkler Rios, Jim Pendergrass, Steve Dignam, Denny Braud, participants; Charles Biggs, Bob Cassidy, Chris Zilka, observers; Mayor Kitty Piercy; Randall Leach, presenter; Deb Noble, Randy Ross, Roger Ebbage, Sustainable Business Initiative Task Force; Bob Doppelt, Sara Mazze, Ray Neff, University of Oregon.

1. Welcome and Introductions

Mr. Rexius welcomed participants and observers to the roundtable. He thanked them for their attendance, saying their remarks and recommendations would be shared with the Sustainable Business Initiative Task Force.

Mayor Piercy thanked those present for their attendance.

Those present introduced themselves.

2. Background on SBI

Mr. Doppelt briefly reviewed the agenda. He said that following a presentation by Randall Leach of ShoreBank Pacific Enterprises, participants would have an opportunity to discuss the issues of how to improve business skills in the sector, expand the sector's knowledge of existing funds, and expand the pool of local funds. In addition, participants would discuss possible action items and next steps.

Mr. Doppelt shared the results of research done by graduate students in interviews prior to the roundtable:

Vision of Future

- Enhance the business and managerial and entrepreneurial skills of local practitioners
- Expand awareness of existing funding sources
- Expand pool of funds available for local entrepreneurs

Possible Opportunities

1. Business/Entrepreneurial skills
 - Establish local entrepreneurial league system

- Establish/Expand existing business education and training: specifically for those focused on sustainability
 - Organize Small Business Association (SBA) style “Retired Executive” program for sustainable businesses
1. Expand Awareness of Existing Funds
 - Focus loan and grant programs on specific geographical area or industry sector (e.g. natural foods)
 - Joint publicity/promotion of existing funds to local entrepreneurs
 1. Expand Pool Of Funds
 - Local banks could establish special Fund – maybe local CD for sustainable businesses
 - New Bank/Loan fund or arm of existing one could be opened in Eugene (ShoreBank)
 - Revolving loan funds could be established
 - Sustainability “lending circle” could be established where promising products and projects could be pitched to pool of local funders

Constraints (Examples)

- Many Sustainable Businesses are small and looking for small loans, not large
- Many new business have no track record or collateral
- Many have insufficient business skills
- Some sustainable projects/products have higher up front costs (or pay back periods) which increases risks to lenders
- Lack of knowledge among many, especially small and mid sized firms, of available funds

Suggested Actions (Examples)

- Establish consortium of local banks, funders, government, chamber of commerce to:
 - Promote available funds
 - Pool and target existing funds
- Create new pool of funds via local C. D. or other mechanism
- Establish mechanism for sustainable businesses to pitch projects to venture capital sources
 - Expand and target micro loan programs to sustainable businesses
 - Recruit / encourage banks to locate here. (e.g. ShoreBank Ent. PAC)

3. Randall Leach, ShoreBank Pacific Enterprises

Randall Leach of ShoreBank Pacific Enterprises discussed his organization’s efforts in funding sustainable businesses. Ms. Mazzie summarized Mr. Leach’s remarks on easel pads.

- ShoreBank was formed in Chicago over 30 years ago
- ShoreBank initially focused on target markets not of interest to conventional lenders, such as loans for properties in “red lined” areas and higher risk loans for minority entrepreneurs
- After a slow start, ShoreBank now has \$1.4 billion in assets and shares its model with others both nationally and internationally—ShoreBank Pacific, formed in conjunction with Eco-Trust, a Portland nonprofit, is part of the holding company
- ShoreBank Pacific is the first commercial bank in the United States with a commitment to environmentally sustainable community development

- ShoreBank Pacific helps borrowers use energy efficiently, reduce waste and pollution, and conserve natural resources-- Now helping mainstream companies go green
- ShoreBank Pacific also launched ShoreBank Enterprise Pacific, a nonprofit organization, which has as its goal helping rural communities traditionally reliant on natural resources to build new economic development strategies
- ShoreBank Pacific started with a rural focus and soon realized that there were additional opportunities in assisting “green” companies to grow with tailored economic packages, although that was not a large market
- ShoreBank Pacific subsequently expanded its model to help mainstream companies shift toward sustainability
- ShoreBank Pacific attempts to assess the economic and social footprint and impact of all its clients and reports that information to its stakeholders
- ShoreBank Pacific uses the information it gets from clients to get inside and better understand the client’s operations and help the client identify opportunities to shift from risk mitigation to sustainability
- ShoreBank Pacific’s services are very expensive to provide given the needed expertise and additional time required—there is a market and ShoreBank had not “cracked” it all—there were many larger companies where a shift to more sustainable business practices would have a larger impact

Mr. Leach answered questions from roundtable participants. Answers were recorded by Ms. Mazzie and are reflected below.

- In regard to its history of profit, ShoreBank Pacific began its efforts about five years ago but generally did not realize a profit until the past two years. The bank has made huge gains over the last 18 months
- In regard to its target market, ShoreBank’s target market was about 50 percent real estate, mostly investor-based, light on construction with emphasis on historic, high-density residential, and small business with \$10 million in revenues and an average loan size of \$250,000. ShoreBank has \$100 million in total assets, and is active west of the Cascades in Oregon and Washington
- Initially 85 percent of deposits were nonlocal
- In regard to lending criteria, ShoreBank has 75-80 criteria broken into the categories social, economic, and environmental. The criteria for lending depend on the investor type; for example, in the case of a building loan, the bank might consider energy efficiency factors
- In regard to whether ShoreBank’s underwriting was consistent with that of other banks, ShoreBank is a basic business bank; earlier in its history it was more of a high-risk lender focused on green investments; the bank continues to seek those where possible
- In regard to whether ShoreBank has a difficult time placing or attracting capital, placing capital can be difficult but attracting it is not—our clients are willing to take a lower rate of return for green investments

Mr. Doppelt asked participants to consider whether local entrepreneurs needed assistance in improving their business skills and capacity. He also asked them to consider whether entrepreneurs needed to expand their knowledge base of what assistance was already available, and if there was a need to expand the pool of funding for sustainability initiatives. Ms. Mazzie recorded participants’ comments on easel pads.

- Yes! Recall the assistance and technical support that I received through Lane Community College (LCC) and my lender. Suggest all lenders have some form of technical assistance to offer to businesses. Was there a potential for more partnership?

Mr. Doppelt determined that participants concurred that there was more opportunity for technical assistance through partnerships with agencies such as LCC

- There are two groups to reach—those passionate about sustainability and need technical assistance, those who are trying to change incrementally and also need assistance
- Must define technical assistance carefully and match it to fit what entrepreneurs need—some need help in sustainability, others in basic business skills
- Technical assistance can be key to the success of a business—there is a learning curve to overcome—need to improve business skills via technical assistance
- A lot of people don't know what exists, e.g., the Business Loan Center managed by LCC
- We need to identify gaps—refer inquiries based on where people are in regard to their skill level
- Business assistance programs are probably more needed than loan programs—there's a lot of loan programs available through City State, private sources
- Question is how to develop, via business incubators or cluster assistance the soft support skills needed to help small businesses
- Agree there is a strong need for education. Pacific Continental taps into the existing local resources that already exist to help its clients maximize their opportunities for success. The difference between Pacific Continental and ShoreBank is a lack of in-house expertise—banks need education about such programs
- Not all banks are in a position to mix lending and technical assistance for sustainable businesses—some businesses need special places to go for such assistance

Mr. Doppelt asked the participants to consider the gaps that existed in regard to technical assistance or lending. He also asked participants to consider who would provide such technical assistance services and how they would be funded.

- We need an entity to help businesses get ready to borrow, such as an SBA niche specialist or small business loan development center
- Gap exists in knowledge about business plans—commend SBA and MBC programs
- Decision about whether or not to give loan depends on potential success of businesses, not sustainability
- LCC best at providing technical assistance: classes, two part-time instructors, and counselors – but training can be too lengthy for some and gaps exist—look into customized training?
- Can we identify what companies are sustainable?
- Depending on where business is, refer to Business Development Center, MBE, SCORE—don't forget business consultants too
- Need more counsel for folks who can't hire a consultant
- Similar groups to SCORE—could educate SCORE volunteers on sustainability
- Agree lots of capital although gaps may exist for start-up entrepreneurs—consider barriers such as those of access and timing—where people are at in terms of skill set makes a difference in regard to what they need
- Gaps will exist in every system
- All those I sought help from were considering sustainability, e.g., sweat equity—they worked with me. I think a system is in place but we need to get the information out
- It's the people without the business skills that are struggling to get funding

- LCC, SCORE, and SBA provide assistance to people lacking the skills
- Lenders need to define sustainability to their clients
- Want to see sustainability certification process developed
- Suggest could package business development loan programs using partnership between community banks and microenterprise loan funds—it would be a shared risk and good public relations—anticipate people would come back later for bigger loans
- Focus on startups may have less impact than sustainable education for existing businesses
- Recommend that we find good existing companies and educate them about sustainability—financing is the weak link—it’s not an incentive or a way to change behavior—it’s a way to increase productivity but it’s a burden for business
- Our bank wants to support sustainable businesses but the issue is managing risk—a bank will not make a loan it would not collect merely to promote sustainable business
- There is a gap in knowledge about business plans—many entrepreneurs are great sales people or have great ideas, but have little fundamental business knowledge and that can lead them to distress—frequently refer people to the LCC program, which is a great program, as well as SBA, for assistance
- Many people do not have the time to take training through LCC—somehow LCC needs to figure out a way to do more custom counseling/training/technical assistance for those individuals
- Business retention services: loans for consulting are underutilized—we could improve that service by adding sustainability consulting services
- Use model for “lean manufacturing” for sustainable businesses
- Each bank could consider its client list and then bring in different experts on different sectors (renewable energy, for example) then discuss loans for those projects—that could create motivation and exposure
- Liberty Bank is already doing seminars—could add sustainability seminars
- Entrepreneurs need certain resources at certain times—capital, technical skills, physical location—those make a difference in regard to the technical assistance available—those without access to capital are likely to be those without a refined business model or little money in the business—think the capital is there
- The “Good Company”—a small firm currently doing sustainability consulting
- Note the availability of business planning software through Palo Alto Software
- If clients can show competitive edge due to sustainable practices, they may become stronger candidate (but not on track for lower interest rate, etc.)
- Consider different debt/equity ratio if proposed business practices are sustainable, and therefore maybe more costly up front—if banks are not willing to be flexible, companies may have a difficult time shifting to sustainable practices or investments
- Banks offer opportunity for mitigating factor—even ShoreBank needs to manage risk—loans are more than ratios, and frequently as much art as science
- Win-win of sustainability is that it reduces volatility—bank can use that point for leverage
- Could we establish a sustainability certification? We could then package business education and loan programs centered around the certification
- The win-win of sustainability is that it mitigates the volatility of payback
- Mezzanine financing for larger loans is a tool for ShoreBank but don’t see that available for small businesses—that’s when the private investors can help
- Small businesses need quasi-equity to generate cash flow
- Depositors want a community green loan fund
- Consider community loan fund- e.g., Cascadia to administer?
- Capital needed is equity, not loan fund—many do not qualify for, or cannot repay the loan
- Does the City have money for higher risk loans?

- Clients less interested in risk of equity investing, but an investment pool can mitigate risk
- City finds gaps - create incubators
- Set up community owned organizations with assistance of City that could assist and promote sustainable business—potential source of cash flow for City?

Anchor Items

1. Expand knowledge of existing funds
 - Website—sustainable business
 - NETMA (nobody ever tells me anything)—former City publication
 - City’s Business Assistance Team is gone
2. Department of Sustainability
 - Sustainable business assistance (was LCC business development center)
3. Incubator
 - Subsidized rent from City
 - One person to oversee effort
 - Use library?
4. Marketing
 - Success with natural food, bike industry
 - Encourage existing banks to hold seminars on sustainable topics to show their support
 - Cascade or ShoreBank fund focused on Eugene “Green CD”
 - Incubator can support CD
 - Blog to identified groups
 - Focus on education for sustainable practices
 - Chamber of Commerce should discuss sustainable education—who don’t they reach?

Mr. Doppelt observed that resources and who could take on some of the action items remained outstanding issues.

Mr. Doppelt solicited comments from the observers.

- Recommend that task force consider the use of tipping fees as a resource for funding the action items—focus on commercial and industrial businesses and demonstrate the cost of waste—it could be an opportunity for new businesses
- Emphasize the importance of education and coaching for sustainable business—keep in mind the model used by OUR Credit Union in making business loans
- Lenders need security—consider approach in which City provided a portion of the security needed for small sustainable business loans, such as a certain percentage or a guarantee for a number of years
- What are banks, etc. doing in their own business to be sustainable? – Their practices can be education in themselves and can lead to increased education

Mr. Doppelt indicated that participants would receive copies of the minutes of the meeting. He would extract the group’s recommendations from the meeting, summarize them, and send them out for review and comment. Mr. Doppelt said that participants would also receive a questionnaire soon, which he encouraged them to complete and return.

Mr. Rexius thanked the participants and adjourned the meeting at 3:33 p.m.

(Recorded by Kimberly Young)