

MINUTES

Lane Economic Committee

Lane Council of Governments – 5th Floor Large Conference Room
859 Willamette, Suite 500 – Eugene

May 18, 2009 – 11:30 A.M.

PRESENT: Rob Scoggin, Chair; John Sullivan, Vice Chair; Pat Albright, DeAnn Cherbas, Mike Galvin, Phillip Hudspeth, Jacque Morgan, Greg Rikhoff, Ellen Teninty, Lynette Wikstrom, *members*; Jay Bozievich, Deb Schmidt, Kari Westlund, *ex officio members*; Lawrence Brice, Jack Roberts, Howard Schesser, Robin Scott, Mike Sullivan, *alternate members*.

ABSENT: Tim Black, Mike Blommé, Denny Braud, Chuck Forster, Faye Stewart, John Tamulonis, Warren Weathers, *members*; Betsy Boyd, Lou Christian, Scott English, Ric Ingham, Don Lindsey, Hal Reed, Brett Yancey, *alternate members*.

STAFF: Steve Dignam (LCOG), Milo Meacham (LCOG), Mike McKenzie-Bahr (Lane County).

GUESTS: Colin Alspach, Scott Goldstein, Mitch Hagstrom, Rodger Terrall, Ron Woods

1. WELCOME / INTRODUCTIONS / CHANGES TO THE AGENDA

Chairperson Rob Scoggin called the meeting of the Lane Council of Governments (LCOG) Lane Economic Committee (LEC) to order at 11:30 a.m. He noted that a quorum was present at that time. Mr. Scoggin invited those present to introduce themselves.

2. PUBLIC COMMENT

None.

3. COMMENTS FROM THE CHAIR

None.

4. STAFF COMMENTS

Steve Dignam invited Pat Albright to speak about Lane Community College's current economic development activities. Mr. Albright mentioned that LCC has several maintenance projects going on that are funded in part or in whole by federal stimulus money, which together provide employment for about 50 people. He also noted that LCC is working to develop a partnership with the City of Eugene that may result in LCC moving into or constructing a building on city-owned property, as it seeks to upgrade its downtown facility.

5. MINUTES OF 3/02/09 MEETING

Jay Bozievich noted that the minutes for the 3/02/09 meeting identified him as making the motion to approve the minutes of the group's 1/12/09 meeting. He said that as an *ex officio member* of the committee, he is not able to make or second motions and refrains from doing so. No one identified themselves as the maker of that motion. No one asked that the minutes be amended.

John Sullivan moved, seconded by Lynette Wikstrom, to accept the minutes of the March 12, 2009 meeting as written. The motion was adopted unanimously, 15:0.

6. SENIOR EXECUTIVE BANK PANEL

Mr. Dignam explained that, in his experience, banks have a pretty good idea of what's going on with economic development in the community. He also noted that local government sometimes has difficulty deciding what to do to stimulate development, so he has invited four local bankers today to share with the LEC what they are doing to encourage development and to offer their perspective on what local government could be doing. He introduced the panelists: Colin Alspach, Chief Lending Officer, Century Bank; Scott Goldstein, Chief Financial Officer, Summit Bank; Mitch Hagstrom, President-Greater Eugene Market, Pacific Continental Bank; and Rodger Terrall, Senior Vice-President, Umpqua Bank.

What are banks doing to stimulate economic development in Lane County?

Mr. Goldstein: Summit Bank is doing much the same as always. They're aware of the changed environment and the risk impact on bank underwriting, but they continue to look for good lending relationships. There has been a change in the kinds of projects available for financing. Summit Bank is only 5 years-old and continues to grow at about 15-20% each year.

Mr. Terrall: Umpqua Bank accepted \$214 million in TARP (capital purchase plan) funds in October at the urging of the federal government. Congress wants Umpqua Bank to lend this money out, but the FDIC is telling them to hold onto it and be careful about their lending practices. The market for jumbo residential loans is gone in the aftermath of the sub-prime debacle. In response, Umpqua Bank has developed a short-term jumbo lending plan and they're watching to see how that will work out. They are also looking to make "green" loans, primarily to individuals, for things like solar panel installation. Umpqua Bank is also informing customers and the general public about ways to survive in the current economic situation through their "Spend Smart" education program. They are actively working with customers who have new or existing loans, but the bank has not loosened its credit standards. Umpqua Bank is most concerned at present about the residential development loan area and they anticipate seeing problems soon in the commercial real estate area. Their focus is on keeping things from getting worse with their borrowers. They are tightening their reviews of loans to try to create a more secure lending environment. Their challenge is how to both stimulate the economy and increase the safety of loans at the same time.

Mr. Hagstrom: Pacific Continental Bank applied for TARP funds, but ended up not taking them. Instead, they raised \$14 million privately. They are lending at a similar rate to last year - \$14.1 million in the January-April 2009 period versus \$14.9 million in the January-April 2008 period. There is a changed lending environment, though. While it is painful now, Mr. Hagstrom believes we are seeing an important correction that will lead lenders back to a more traditional understanding of what makes a good long-term project for financing. Pacific Continental Bank's motto in this regard

is quality first, then profitability, and finally growth. Part of the reason for our current difficulties is that too many lenders and businesses in recent years have put growth ahead of all other factors. Mr. Hagstrom said that an emphasis on quality means making loans only to businesses with good projected cash flows. He said bankers need to do more than just lend money; they need to meet with businesses and educate them on how to be smarter financially. In general, banks now need to be good stewards of businesses. Mr. Hagstrom pointed out several initiatives Pacific Continental Bank has taken in this regard and noted their support for their employees' volunteer activities in the community.

Mr. Alspach: Century Bank is a new and very small bank that focuses on small business loans. They didn't accept any TARP funds last year. Century Bank is trying to do what they have always done, which is work hard to assist their borrowers succeed in their businesses. They have not "opened the spigot" on lending, because they have to follow FDIC and state lending regulations. Interest rates are low now, but it costs borrowers more now to get a loan. Century Bank has focused on increasing deposits, so they will have more money available to lend. They are doing this by paying higher rates on deposits and CDs. Century Bank is also emphasizing basic lending rules, because it was the sub-prime loans and the "liar" loans that got so many people and businesses into trouble.

What can local governments do to stimulate economic development in Lane County?

Mr. Alspach: He has talked to several people about this question and the suggestions he has heard include: make the permitting process easier in the City of Eugene's Building Department, create more enterprise zones, expand development tax credits, and reduce system development charges (SDC).

Mr. Hagstrom: He commended the City of Eugene for its outreach efforts among financial groups, particularly efforts by City Manager Jon Ruiz, Susan Muir, and Mike Sullivan. He said it's extremely important for local governments to maintain an environment that is helpful to business, such as keeping the crime rate low. He also urged local governments to seek out quality businesses, not just any business that wants assistance in coming here. We should be supporting businesses that are willing to invest in our community and that are committed to staying here long-term.

Mr. Terrall: He urged the city to work with existing businesses to make sure they're able to grow and remain here, especially ones that fit well with Eugene's culture and feed other local businesses. Mr. Terrall cited Grain Millers, Sony, the motor home industry, and several local food producers, as examples. He also cautioned the City of Eugene that its building permitting process is long and unpleasant for most businesses and should be improved. Mr. Terrall reiterated the importance of local governments talking to financial people to ensure that government is supporting "sound" businesses, rather than chasing after any business that says it's willing to move here.

Mr. Goldstein: He stressed the value of any government action that encourages banks to lend to small businesses, since that money is usually spent locally. Mr. Goldstein also encouraged local governments to find ways, perhaps by "piggy-backing" federal stimulus funds and Small Business Administration (SBA) loan programs, to make local small businesses more "credit-worthy", so banks would be more willing to lend money in riskier situations. He also lamented the way the federal TARP program has been portrayed in the media. The original idea was to give money to healthy banks and encourage them to do "their patriotic duty" and lend it out, as a way of stimulating the economy. Unfortunately, the media transformed this into something negative - a bailout for

those who had managed their banks badly, which clearly discouraged some banks from taking TARP funds.

LEC Member Questions and Answers:

Mr. Alspach and Mr. Hagstrom spoke about the current costs of lending, strategies for raising core deposits, and why the prime interest rate is not a reliable indicator of a bank's ability to profitably lend money. Mr. Hagstrom noted that, while both Pacific Continental Bank and Umpqua Bank are preferred lenders under SBA programs, they still can only loan money to small businesses that meet the normal underwriting standards. Loaning money to small businesses that meet these standards, he said, is very beneficial to a bank, because of the 90% federal guarantee. Mr. Hagstrom also sees an increased reluctance on the part of small businesses to take on more debt in the current economy. Many small businesses, he said, are reevaluating their human and capital resources and making significant adjustments in their lifestyles, in an effort to increase their stability.

Mr. Goldstein noted that the rate at which a bank lends is a function of the cost of funds to a bank and their credit spread. In recent years, many banks operated with a credit spread that was too low to cover the risk involved in their loans and, thus, not sustainable. Now, because of the shaky economy, banks are reassessing their credit spreads and will be requiring borrowers to pay more. This may make loans harder to get, but in the long run, pricing the risk properly will be a good thing. The cost of money for banks is lower, but the credit risk is greater.

Jay Bozievich asked what the panelists feel local government should not be doing, that is what kinds of governmental actions could hurt local development efforts. Mr. Alspach said local government should keep the cost of doing business down by limiting "hidden taxes", such as the LTD transit tax, and should not raise SDCs. He feels the current tax system favors the small business entrepreneur and urged local government not to do anything to change that. Mike McKenzie-Bahr noted that the increased cost of doing business caused by government fees, such as SDCs, is much smaller than the extra 1-2% banks are now adding to the cost of loans. Mr. Hagstrom said local governments should primarily be investing their stimulus money into projects that will create long-term value for their communities, rather than short-term projects that are not sustainable. He said members of the local financial community would be glad to provide input into local governments' efforts to evaluate the financial soundness of potential development projects. Mr. Terrall urged local government officials to be thoughtful about how they talk about the economy. He said comments from local officials, especially the negative ones, have a real impact on how businesses and consumers perceive things - and this readily affects their spending behavior. Mr. Goldstein supported Mr. Terrall's comments and suggested that public perceptions drive recessions more so than job losses.

John Sullivan expressed concern about how difficult it is for local small businesses to secure funds to maintain and expand their businesses. He said there isn't enough SBA funding available locally; venture capital funds are insufficient; and local governments don't coordinate their efforts enough in this area. He asked what bankers could do to meet with local government officials and help them figure out how to create jobs. Mr. Hagstrom said he doesn't see his role as a banker as being politically active, but he does feel bankers need to be part of the solution to the current economic problems and he expressed a willingness to meet with political leaders. Mr. Alspach said he very much wants Eugene to be successful, but feels most bankers, like himself, tend to stay away from politics. Mr. Terrall said banks try to have their institutions and employees involved in community activities, but they have no experience being involved politically. He said he wasn't exactly sure how to get

involved with local political leaders in a meaningful way. Mr. Bozievich said he thought most local officials would welcome input from bankers, because of their expertise on financial issues and their impact on small businesses. The officials would still make the decisions, he said, but contact with bankers would give them more information on which to make those decisions.

DeeAnn Cherbas said that, as a banker for 40 years, she is finding it extremely important right now to focus her efforts on sustaining the businesses of her existing customers. Many have cash flow problems; others need to revise their business plans. Bringing in new development is useful, but we have to be sure we help our existing businesses survive. Mr. Terrall said it is sometimes hard to determine whether or not to make a loan to a particular struggling business; your loan could make the difference in helping that business survive or you might end up just throwing money away. Mike Sullivan said many local small businesses have immediate cash flow problems and are reluctant to consider short-term borrowing right now, because they fear their bank will call in the loan and they'll end up defaulting. This also hurts development efforts. Mr. Terrall said that Umpqua Bank is not closing loans, if businesses have adequate collateral, but they are asking borrowers with unsecured lines to become secured. Mr. Hagstrom noted that Pacific Continental Bank has not changed its loan standards. They have money to lend, he said, but they won't lend it, unless the borrower has adequate collateral. As much as they want to assist their community's economic development, Mr. Hagstrom said, bankers must meet the requirements of the FDIC. Mr. Alspach said small businesses need to watch their receivables and be sure they will be able to collect on them.

Mike Sullivan provided information on what the City of Eugene is doing with its admittedly complicated land use code. Because some developers are having difficulties in the current economy making required improvements within the mandated timeframe after receiving conditional approval on their projects, the Planning and Development Department is asking the City Council to extend those timelines. This may enable some developers to complete their projects, instead of losing their conditional approval and having to start over again or abandoning their project altogether. The department is also attempting to make the code more flexible by expanding the number of areas where people applying for permits can ask for "adjustment reviews" and not just have to meet the terms of a "black and white" code.

Mr. Sullivan also described recent activity by the Joint Elected Officials (JEO) group in the area of economic development. This group, which includes the Lane County Board of Commissioners and the city councils of Eugene and Springfield, meets regularly to consider areas of shared responsibility and investment. Mr. Sullivan said the JEO has decided that its main priority now will be economic development. The JEO has established a sub-committee to develop a slate of proposed actions that will be presented to a community "economic summit" in September for review and adoption. This would include a set of principles to guide local economic development efforts, such as creating quality jobs, working with the assets we already have, and focusing on businesses that have a long-range future in our communities. The JEO intends to come out of the summit with a short agenda of economic opportunities to work on, such as technology starts, manufacturing, health care, or specialty foods. They want to identify any barriers to growth in these industrial clusters and then take actions that will improve chances for success in these kinds of businesses. Eugene City Manager Jon Ruiz has convened this effort, but all jurisdictions are supporting it.

Mr. McKenzie-Bahr noted there have been some difficulties among local elected officials in addressing economic development issues. For example, the economic summit was originally supposed to happen in May, but debate and disagreement have delayed the timeline. At the county, the commissioners recently voted 3-1 to dissolve their Economic Development Standing Committee and are now in the process of deciding how to reconstitute it. Three commissioners have also pro-

posed that the county stop providing funding to the Lane Metro Partnership. This would eliminate one economic development tool from our toolkit, said Mr. McKenzie-Bahr, just when we need it most. He said the county has worked very effectively with the Lane Metro Partnership to distribute video lottery funds as grants to local small businesses that need gap funding assistance for things like working capital and equipment. He noted that money for the Lane Metro Partnership is already in his budget and expressed concern that the effort to delete this funding is based on politics, rather than economic development strategy. He is encouraging commissioners not to take this action and would appreciate any support LEC members can provide. The vote on county funding for the Lane Metro Partnership will occur on May 19.

John Sullivan encouraged the four members of the banker panel to immediately contact county commissioners about preserving funding for the Lane Metro Partnership. Mr. Terrall noted how valuable the Lane Metro Partnership has been to him in evaluating proposals from businesses wanting to move into the community. Lawrence Brice emphasized that we are all in this bad economy together and urged the bankers to figure out ways to work with elected officials to improve things.

Mike Galvin moved, seconded by Greg Rikhoff, to express to the county commissioners the support of the Lane Economic Committee for continued county funding of the Lane Metro Partnership. The motion was adopted unanimously, 15:0.

7. JOINT MEETING OF REGIONAL INVESTMENT BOARD / CASCADES WEST ECONOMIC DEVELOPMENT DISTRICT IN JUNE 2009

Mr. Dignam announced that the Regional Investment Board (RIB) would be holding its annual meeting with the Cascades West Economic Development District (CWEDD) on June 5. In the past, the LEC has appointed two members to join the LCOG Board of Directors in attending these meetings. Those who have represented the LEC in recent years are Rob Scoggin, John Tamulonis, and John Sullivan.

DeeAnn Cherbas moved, seconded by Mike Sullivan, to appoint Rob Scoggin and John Tamulonis as the LEC representatives to the annual RIB/CWEDD meeting this year, with John Sullivan designated as the alternate. The motion was adopted unanimously, 15:0.

The next LEC meeting will be July 20, 2009.

The meeting adjourned at 1:00 p.m.

(Recorded by Kurt Willcox)