



Board

Meeting

July 7, 2020



AGENDA
Product Development and Small Business Incubator Board Meeting

July 7, 2020
12:00 PM

VIDEOCONFERENCE MEETING

Board members will be meeting via videoconference. Members of the public who would like to attend the meeting may join by videoconference using the following information:

FREE WEB LINK FOR VIDEOCONFERENCE:

[https://teams.microsoft.com/dl/launcher/launcher.html?url=%2f %23%2f%2fmeetup-join%2f19%3ameeting_YjU3ODQyNzgtYjRiZi00ZWUwLThkZDQtODUwNzIxZjYyNGlz%40thread.v2%2f0%3fcontext%3d%257b%2522Tid%2522%253a%252254cb5da6-c734-4242-bbc2-5c947e85fb2c%2522%252c%2522Oid%2522%253a%2522c741f61e-6d3e-4edf-9b27-4a9ee3d43097%2522%257d%26anon%3dtrue&type=meetup-join&deeplinkId=1207ac68-ce2e-4c82-b0ac-4be32333dcee&directDl=true&msLaunch=true&enableMobilePage=false&suppressPrompt=true](https://teams.microsoft.com/dl/launcher/launcher.html?url=%2f%20%23%2f%2fmeetup-join%2f19%3ameeting_YjU3ODQyNzgtYjRiZi00ZWUwLThkZDQtODUwNzIxZjYyNGlz%40thread.v2%2f0%3fcontext%3d%257b%2522Tid%2522%253a%252254cb5da6-c734-4242-bbc2-5c947e85fb2c%2522%252c%2522Oid%2522%253a%2522c741f61e-6d3e-4edf-9b27-4a9ee3d43097%2522%257d%26anon%3dtrue&type=meetup-join&deeplinkId=1207ac68-ce2e-4c82-b0ac-4be32333dcee&directDl=true&msLaunch=true&enableMobilePage=false&suppressPrompt=true)

In accordance with section 418.016 of the Texas Government Code, Governor Abbott has suspended various provisions that require a quorum or a presiding officer to be physically present at a specified meeting location. It is the intent of the Board to have its members join from separate locations. Members of the public via the videoconference information provided will be able to hear audio of the meeting and can provide comments during the Public Comment portion of the meeting. The Board will also record the meeting, which will be made available to members of the public.

All agenda items are subject to possible discussion, questions, consideration, and action by the Product Development and Small Business Incubator Board (Board). Agenda item numbers are assigned for ease of reference only and do not necessarily reflect the order of their consideration by the Board. Presentations may be made by the identified staff or Board member or other staff as needed. The Board reserves the right to discuss any items in executive session where authorized by the Open Meetings Act.

ITEM

- I. Call to Order
- II. Introduction of Board Members and Staff
- III. Discussion and Possible Action on Approval of Minutes from the April 22, 2020 Product Development & Small Business Incubator Board meeting (Tab 1).
- IV. Update, Discussion, Consideration, and/or Possible Action On:
 - 1) Credit Policy/Use of Funds: Update, discussion, consideration and/or possible action on Credit Policy (Tab 2).

- a. Relating to Qualification as Existing Business Notwithstanding Lack of Provision of Audited Financial Statements if Not Readily Available, for Loans Less Than or Equal to \$5 Million
 - b. Relating to Capital Access Program transfers as allowed by Texas Government Code Section 481.415
- 2) Nominations for and elections of Vice Chair and Secretary of the Board (Tab 3)
- V. Comments without Deliberation:
- Public comment may be received on any matter under the Board's jurisdiction without regard to whether the item was posted on the Agenda.
- VI. Adjournment

Link to July 7, 2020 PDSBI Board meeting documents:

https://gov.texas.gov/uploads/files/business/PDSBI_July2020_Meeting_Packet.pdf

Persons with disabilities who plan to attend the meeting, who may need auxiliary aids or services, or who need assistance in having English translated into Spanish, should contact Fauye Bennett at 512.936.0225, at least 2 days before the meeting so that appropriate arrangements can be made.

Si tiene planeado asistir a esta reunión y es usted una persona discapacitada que requiere servicios o instrumentos especiales; o bien si requiere de traducción al español, le rogamos comunicarse con Fauye Bennett al 512.936.0225 por lo menos 2 días antes de la reunión para hacer los arreglos necesarios.

THE BOARD MAY CONVENE INTO EXECUTIVE SESSION AT ANY TIME DURING THE COURSE OF THIS MEETING TO DISCUSS ANY OF THE MATTERS LISTED ABOVE AS AUTHORIZED UNDER THE TEXAS OPEN MEETINGS ACT FOR THE FOLLOWING PURPOSES:

Tex. Gov't Code § 551.071 Consultation with Attorney

Tex. Gov't Code § 551.074 Personnel Matters

Tex. Gov't Code § 551.087 Deliberation Regarding Economic Development Negotiations

The meeting will be reconvened in open session upon conclusion of any executive session to consider or take final action, if any, on matters deliberated during the executive session.

Tab

1

PRODUCT DEVELOPMENT AND SMALL BUSINESS INCUBATOR BOARD

Minutes of April 22, 2020 Meeting

Videoconference/Teleconference Meeting
3:30 PM

VIDEOCONFERENCE/TELECONFERENCE MEETING

BOARD MEMBERS IN ATTENDANCE:

David Margrave	Kimberly Gramm
Jody Goehring	Jimmie Limon
Jimmy Mize	Melinda Moore
Hayden Padgett	Manny Salazar
Collette Walls	

STAFF IN ATTENDANCE:

Lindsey Aston	Mari Bergman
Adriana Cruz	William Jackson
Haileigh Meyers	Eric Schneider
Mary York	Terry Zrubek

The Board proceeded on posted agenda items in the order as follows:

Agenda Item I. CALL TO ORDER

David Margrave, Chairman of the Product Development and Small Business Incubator Board (PDSBI), welcomed the board members and the staff at 3:38 PM and took attendance of the members. A quorum was present.

Agenda Item II. INTRODUCTION OF BOARD MEMBERS AND STAFF

Board members and staff in attendance at the meeting introduced themselves. Two new board members and two new staff members were introduced.

Agenda Item III. APPROVAL OF MINUTES

The Board reviewed the minutes of the September 24, 2019 board meeting.

ACTION: Motion by Jimmie Mize, Second by Melinda Moore, Motion carried to approve the minutes with the following change: Page 2 Item 4.2- change the word "repeated" to "continuous."

Agenda Item IV. UPDATE, DISCUSSION, CONSIDERATION, AND/OR POSSIBLE ACTION ON:

1) Mason Greenstar, Inc./Mason Veneers, LLC: Update, discussion, consideration and/or possible action on a pending Small Business Incubator Fund loan.

William Jackson updated the board on the status of the pending Small Business Incubator Fund loan to Mason Greenstar, Inc./Mason Veneers, LLC ("Borrowers").

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William Jackson informed the Board that after the original discussions with the Board on the loan, the Borrowers proposed to use proceeds from the loan to pay off a line of credit.

At 3:56pm, Kimberly Gramm stepped away from the meeting to avoid any potential conflict of interest, as Texas Tech has an interest in at least one of the Borrowers.

Discussion was held relating to the new information and how to mitigate risks relating to the potential loan. The Board discussed risk mitigation parameters relating to the loan.

ACTION: Motion by Hayden Padgett, Second by Jimmie Mize, Motion carried to approve the Bank moving forward with the loan as follows

The Board approved the Bank's implementation of the following parameters relating to the potential loan (including any loan documents) to Mason Veneers, LLC, and Mason Greenstar, Inc., previously approved by the PDSBI Board:

1. Allow flexibility for use of loan proceeds within parameters set by the Bank.
2. Allowable interest rate with a minimum of four percent plus variable.
3. Additional flexibility to adjust the payment, disbursement, collateral, and monitoring structure of the loan beyond the specifications originally presented to the Board.

Additional adjustments, within the general intent and scope of these terms, may be approved by the Bank, provided that the Bank believes such adjustments are as protective as the specified terms.

The Board also provided the following additional parameters for the Bank in issuing the loan:

1. With respect to the machinery from Germany, the Bank is to establish a reasonable mechanism to assure a basis of protection that any risk while the machinery is being built is minimized as much as possible (including adequate insurance), and discussed the Bank obtaining references from previous American customers.
2. The Bank is to implement additional monitoring during the early period of loan and while the equipment is being built in order for the Bank to keep apprised of any issues that might arise to ensure any issues are addressed early.
3. The Bank is to make sure there is some mechanism to address the ability of the Borrowers to take on additional undue debt during the time the loan is outstanding. All debt would be secondary to the PDSBI debt.
4. The Borrowers are to address their ability to execute on their business objectives and the impact on their cash flow given the payoff of the line of credit
5. The Bank is to ensure that there are reasonable limits on the Borrowers' capitalization and debt structure, and also familiarize itself with the existing terms of the line of credit the Borrower is paying off.

The Board clarified that is authorizing the Bank to move forward within the parameters assuming the Bank believes the loan is protected within these

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parameters and as best determined by the Bank to achieve the objectives identified and finalize the loan documents. The Board further clarified that the loan documents may include additional language to permit the Borrowers to pay down the line of credit with the loan proceeds.

2) Credit Policy/Use of Funds: Update, discussion, consideration and/or possible action on Credit Policy and/or use of program funds, relating to changes in economic conditions due to COVID-19.

I. Motion to Approve the Proposed COVID-19 Temporary Loan Addendum to the Credit Policy

Terry Zrubek presented proposed changes to the credit policy. Currently the Small Business Incubator Fund has approximately \$17 million available for loans. The Board discussed various ways to distribute available funds to manufacturers addressing current needs within the State of Texas due to the threat of COVID-19, while continuing to assure protection for funds and of the ability to pay on the underlying bonds.

ACTION: Motion by Manny Salazar, Seconded by Jimmie Limon, Motion carried to approve the below Motion.

COVID-19 TEMPORARY LOAN ADDENDUM

Purpose: The Texas Economic Development Bank would obtain additional authority from the PDSBI board to provide an initial round of up to \$5,000,000 of funding from the Small Business Incubator Fund to loan to small business manufacturers (NAICS codes 31-33) that adjust or expand their business for COVID-19 related products, at collateral discount rates potentially greater than what is currently permitted under the Credit Policy for bank-approved loans, and with modified application procedures (“COVID-19 SBI Loans”). The remainder of procedures and parameters in the current Credit Policy would apply to these loans. The application process shall remain open until all proceeds have been distributed or September 30, 2020, whichever event occurs first.

Application Fee: \$500

Loan Amount: The program will offer loans up to \$250,000 per applicant.

Minimum Interest Rate: 1.5% plus variable interest rate as determined by the Bank.

Maximum Length of Loan: In accordance with 10 T.A.C. 177.5, the maximum term of a loan to finance real property may not exceed 20 years, and the maximum term of a loan to finance tangible personal property may not exceed the shorter of 15 years or the useful life of the collateral. As to a loan to finance tangible personal property, the amortization duration may not exceed 15 years. To the extent 15 years is longer than the useful life of the collateral, however, the duration of payments cannot exceed the useful life of the collateral, and the last payment on

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the loan at the end of the useful life of the collateral period can be a balloon payment of the remainder of the balance of the loan.

Collateral: Collateral is required as a secondary source of repayment.

The Bank will review the applications collateral if it meets the following discount rates:

- Real Estate--- 70-90% discount rate, a 5% increase from the 65-85% discount rate in the existing Credit Policy.
- Commodity products in raw forms such as, metals, lumber, bulk agriculture products, non-toxic materials (items that can be easily sold) – 55-65% discount rate, a 5% increase from the 50-60% discount rate in the existing Credit Policy.
- Inventory
 - New machinery or equipment – Up to 90% discount rate, a 15% increase from the upper rate of the 65-75% discount rate in the existing Credit Policy.
 - Used machinery or equipment – 45-55% discount rate, a 5% increase from the 40-50% discount rate in the existing Credit Policy.
 - Readily saleable finished goods: engines, large industrial tools, equipment, brand name finished goods, large appliances, some consumer goods – 45-55% discount rate, a 5% increase from the 40-50% discount rate in the existing Credit Policy.
 - Saleable finished goods: Auto parts, small appliances, office supplies, marine parts – 30-45% discount rate, a 5% increase from the 25-40% discount rate in the existing Credit Policy.

1/3 of the amount of the incremental increase in discount rate for each respective category listed above from the upper rate of the corresponding discount rate in the existing Credit Policy, must be covered by some additional support, the nature of which the Bank may determine in its discretion. Examples may include, but are not limited to, coverage by a local entity or other funds, where permissible.

Application: The applicant must submit the following:

- Standardized Application stating use of funds and how their application applies to this program
- Business plan including documentation included in Texas Administrative Code Title 10, Part 5, Chapter 177, Rule 177.6
- Insurance
- Demonstration of clear title for pledged collateral

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II. Discussion and Potential Action Relating to Clarification of Credit Policy Concerning Existing Loans, as well as 3) Potential Amendments to loan agreements with the following borrowers: a. Fujifilm Diosynth Biotechnologies Texas, LLC; b. Texas State Technical College-Waco; c. Taylor Iron-Machine Works, Inc.

William Jackson explained that none of the program's current borrowers have asked for changes to their loan terms due to COVID 19 and the resulting economic conditions; however, the Bank want to be prepared should it occur. The Board discussed that this is similar to what most US banks area already doing for their clients and the Board and the Bank should look to follow their example.

The Board determined to provide the Bank the flexibility to not declare in default or not provide notice of default for existing borrowers for a period of up to two months after the lifting of the Texas Governor's disaster declaration (including any renewals) relating to the COVID-19 pandemic, not to exceed six months of payments total. The Bank is not required to declare the PDSBI borrower in default, but it is also not prohibited from declaring in default if the circumstances merit. All amounts would still need to be repaid, but the timing of the payments could be deferred. The time period for payment would be calculated within the determination of the Bank, by taking the deferred amounts, dividing them by up to 12 months, and then spreading that payment out. This flexibility would not apply to new loans, including specifically any loan to Mason Greenstar, Inc./Mason Veneers, LLC.

ACTION: Motion by Jimmy Mize, Second by Jimmie Limon, Motion carried to approve the flexibility as outlined above.

Agenda Item V. FINANCIAL & PROGRAM UPDATE

Presentation and discussion of Loan Program Financial Report.

Chairman Margraves suggested to not have the Loan Program Financial Report update in the meeting, but instead have separate updates done tailored to particular subcommittees in subcommittee meetings, and, the Loan Program Financial Report update was not covered.

Agenda Item VI. Comments without Deliberation:

No Public Comment

Agenda Item VII. Adjournment

Lindsey Aston mentioned that the board packet was updated after posting to add the videoconference link on the copy of the agenda in the board packet, which was already included on the posted agenda.

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No further agenda items were discussed or deliberated and no other action was taken. Meeting adjourned at 5:40pm.

David Margrave, Chair

Date

Tab

2

DRAFT Motion on Credit Policy Relating to Qualification as Existing Business Notwithstanding Lack of Provision of Audited Financial Statements if Not Readily Available, for Loans Less Than or Equal to \$5 Million

Currently the PDSBI Bank and Board Credit Policy (“Policy”) requires applicants to provide “at least three (3) years of audited annual financial statements” to qualify as an “existing business” (as opposed to a “start-up”). The Product Development and Small Business Incubator Board (“Board”) recognizes that the preparation of audited statements can be burdensome for small businesses due to cost and use of employee time, but also recognizes the value of obtaining some form of financial statements from applicants who are smaller, but existing businesses. In addition, the Texas Economic Development Bank (“Bank”) has before it at least one applicant seeking less than \$5 million in funding that would otherwise qualify as an existing business, but does not have audited financial statements for the prior three years, although it does have some form of financial statement for the prior three years. Accordingly, the Board moves to amend the Policy in Section B.v, under sub-headings “Financial Statements and Analysis, Existing Businesses” as indicated by the underlined/stricken-through changes below, with what is underlined being new language and what is stricken through being removed. Amending the Policy as provided in the underlined/stricken-through changes below will allow those applicants seeking \$5 million or less to provide audited or unaudited financial statements (whichever is readily available) for the prior three years, and still qualify as an “existing business,” assuming they meet the other criteria to do so.

Financial Statements and Analysis

All Applicants/projects will be subject to the following minimum standards:

Business Start-ups

- 1.) Maximum debt to equity ratio of 4 to 1 including requested loan; and
- 2.) Minimum equity injection of 25%; and
- 3.) No more than 25% of the equity injection contributed by the owners can be from property, plant or equipment; the remaining 75% must be from cash; and
- 4.) Capital from the owners must be sufficient to offset accrual losses incurred during the initial or start-up phase of the operation.

➤ ***NOTE: Losses incurred during the first three (3) years of operation as identified on the pro forma profit and loss statement must be offset by capital contributions or subordinated debt from the owners of the venture. Pro forma statements (profit and loss, balance sheets and cash flows) must be prepared for 36 consecutive months. The cash flow source and use of funds will be based on Generally Accepted Accounting Principles (GAAP).***

Existing Businesses

- 1.) (a) For applicants seeking more than \$5 million, at least three (3) years of audited annual financial statements; and (b) for applicants seeking \$5 million or less, at least three (3) years of financial statements (audited, if readily available, or unaudited statements (profit and loss, balance sheets and cash flows), if audited financial

- statements are not readily available), must be presented to qualify as an existing business;
- 2.) Maximum debt to equity ratio of 4 to 1 after the incorporation of the new debt;
 - 3.) The annual current ratio must be at least 1 to 1 after the incorporation of the new debt;
and
 - 4.) A debt service requirement of at least 1.2x after the incorporation of the new debt based on the most recent annual financial statement presented.

NOTE: If the application doesn't readily meet any of the above criteria, the loan will require further analysis and waiver by the Board (for Board Approvable Loans) or the Bank (for Bank Approvable Loans) of any criteria that are not met in order for the loan to be approved.

DRAFT Motion on Credit Policy Relating to Capital Access Program transfers as allowed by Texas Government Code Section 481.415

Move to allow the Texas Economic Development Bank (“Bank”) to use monies transferred or to be transferred under Section 481.415 of the Texas Government Code in accordance with all applicable law, without requiring any additional procedures that would otherwise be imposed by the Credit Policy and without requiring Product Development and Small Business Incubator Board approval of any use of such monies. The Credit Policy shall be amended to explicitly provide at its conclusion as follows:

Loans made pursuant to Section 481.415(b) of the Texas Government Code are not subject to this Credit Policy and may be made by the Bank without Board approval, in accordance with all applicable law.

Tab

3

DRAFT Procedures/Motions Relating to Nominations for and Elections of Vice Chair and Secretary of the Product Development and Small Business Incubator Board

The Product Development and Small Business Incubator Board ("Board") seeks to appoint a Secretary as provided by Section 489.203(e) of the Texas Government Code and 10 T.A.C. § 177.3(a)(3), and a Vice Chair as provided by 10 T.A.C. § 177.3(a)(2), to exercise the duties entrusted to them in those provisions.

DRAFT Procedural Motion:

I move to elect the Secretary and Vice Chair by voice vote, taking nominations from the floor.

I second the motion.

All in favor, _____. Any opposed? _____.

DRAFT Election Procedures if Done by Voice Vote, Taking Nominations from the Floor

(1) Election for Secretary

Board Member: _____ nominates _____.

Chairman Margrave: ___ for Secretary. Are there any further nominations for Secretary?

Board Member: _____ nominates _____

Chairman Margrave: ___ for Secretary. Are there any further nominations for Secretary?

(and additional nominations if appropriate)

Chairman Margrave: Hearing no further nominations for Secretary, is there any opposition to closing the nominations? Hearing none, the nominations are closed.

- If there is opposition, either keep the nominations open or there must be a motion made and seconded, and passed by 2/3 of those board members present, in order to close the nominations. Chairman Margrave: All those in favor, please rise. Be seated. All those opposed, please rise. Be seated. The motion passes (if more than 2/3 of the board members present are in favor).

All those in favor of _____ as Secretary, say Aye. Those opposed, say No.

If the Ayes have it:

Chairman Margrave: The Ayes have it, and _____ is elected Secretary,

If the Noes have it:

Chairman Margrave: The Noes have it, and _____ is not elected. All those in favor of [second candidate] as Secretary, say Aye. Those opposed, say No.

If the Ayes have it:

Chairman Margrave: The Ayes have it, and ___ is elected Secretary,

If the Noes have it:

Chairman Margrave: The Noes have it, and ___ is not elected. All those in favor of [second candidate] as Secretary, say Aye. Those opposed, say No.

(and additional votes if appropriate).

If there is a tie vote, or no one receives a majority vote, the Board members keep voting until there is a majority vote.

(2) Election for Vice Chair

Board Member: _____ nominates _____.

Chairman Margrave: ___ for Vice Chair. Are there any further nominations for Vice Chair?

Board Member: _____ nominates _____

Chairman Margrave: ___ for Vice Chair. Are there any further nominations for Vice Chair?

(and additional nominations if appropriate)

Hearing no further nominations for Vice Chair, is there any opposition to closing the nominations?

Hearing none, the nominations are closed.

- If there is opposition, either keep the nominations open or there must be a motion made and seconded, and passed by 2/3 of those board members present, in order to close the nominations. Chairman Margrave: All those in favor, please rise. Be seated. All those opposed, please rise. Be seated. The motion passes (if more than 2/3 of the board members present are in favor).

All those in favor of ___ as Vice Chair, say Aye. Those opposed, say No.

If the Ayes have it:

Chairman Margrave: The Ayes have it, and ___ is elected Vice Chair,

If the Noes have it:

Chairman Margrave: The Noes have it, and ___ is not elected. All those in favor of [second candidate] as Secretary, say Aye. Those opposed, say No.

If the Ayes have it:

Chairman Margrave: The Ayes have it, and ___ is elected Secretary,

If the Noes have it:

Chairman Margrave: The Noes have it, and ___ is not elected. All those in favor of [second candidate] as Secretary, say Aye. Those opposed, say No.

(and additional votes if appropriate).

If there is a tie vote, or no one receives a majority vote, the Board members keep voting until there is a majority vote.