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MINUTES FOR THE BOARD OF DIRECTORS MEETING
OF THE
LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
HELD AT
LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM BUILDING
FOURTH FLOOR BOARDROOM
8401 UNITED PLAZA BOULEVARD
BATON ROUGE, LOUISIANA
ON THE 18TH DAY OF OCTOBER, 2013
COMMENCING AT 9:35 A.M.

REPORTED BY: ELICIA H. WOODWORTH, CCR

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Appearances of Board Members Present:

Alden Andre
Cal Simpson
A.J. Roy
Quentin Messer, Jr.
Louis Reine
Susan Tham
Jay Rousseau

Staff members present:
Daria Vinning
Brenda Guess
Rick Broussard
Susan Bigner
Seth Brown
Anne Villa
Christian Pennington
Bob Cangelosi
Eric Burton

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MR. ROY:
Good morning. Call to order the Board of Directors Louisiana Economic Development Corporation.
Rollcall, please.
MS. VINNING:
A.J. Roy.
MR. ROY:
Here.
MS. VINNING:
Jay Rousseau.

MR. ROUSSEAU:
Here.
MS. VINNING:
Alden Andre.
MR. ANDRE:
Here.
MS. VINNING:
Quentin Messer.
MR. MESSER:
Here.
MS. VINNING:
Natin Kamath.
(No response.)
MS. VINNING:
Cal Simpson.

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MR. SIMPSON:
Here.
MS. VINNING:
Robert Stuart.
(No response.)
MS. VINNING:
Susan Tham.
MS. THAM:
Here.
MS. VINNING:
Harry Avant.
(No response.)
MS. VINNING:
Louis Reine.
MR. REINE:
Here.
MS. VINNING:
Seven out of 11 members. We have a quorum.
MR. ROY:
Very good. I'll ask everyone to please silence their cell phones.
Before we go any further, we have two new Board members. This is their first Board meeting. It's my pleasure to introduce Susan Tham with the

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Louisiana CPA Society. Thank you. Welcome. And also Mr. Cal Simpson with the Louisiana Retailers Association. Mr. Simpson, perhaps you'd like to say a few words.
MR. SIMPSON:
Just glad to be here and help be a part of this Board. Thank you.
MR. ROY:
Very good.
We have a resolution now regarding Secretary Moret's designee, Mr. Messer, and who had that resolution to present?
MR. CANGELOSI:
It was attached to the minutes. If you would like me to read it, I can do that.
MR. ROY:
We need to act on that resolution; is that correct?
MR. CANGELOSI:
Yes.
MR. ROY:

Does anybody have any questions about the resolution authorizing Mr. Messer to act in Secretary Moret's position?
MR. REINE:
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Why do we need to take action?
MR. ROY:
Just to allow him to represent the Secretary, et cetera, as is tradition to take his place.
MR. ANDRE:
Move for approval.
MR. ROY:
Motion for approval as presented.
MR. REINE:
I second.
MR. ROY:
Second.
Any discussion?
(No response.)
MR. ROY:
Hearing none, all in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
All right. We have several sets of minutes that are before us. The first minutes are the LEDC Screening Committee's minutes of July the 19th.
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What is the pleasure of the Board?
MR. REINE:
Move to accept the minutes.
MR. ROY:
Move to accept these minutes as presented.
Is there a second.
MR. ROUSSEAU:
Second.
MR. ROY:
Second.
Any discussion?
(No response.)
MR. ROY:
Hearing none, all in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
Also before us, the Board minutes of the July 19th Board meeting.
MR. REINE:
Move to accept.
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MR. ROY:
Motion to accept as presented.
MR. ANDRE:
Second.
MR. ROY:
Second.

Any discussion?
(No response.)
MR. ROY:
Hearing none, all in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
Finally, the Screening Committee minutes for the September 20th meeting.
MR. ANDRE:
Move for approval.
MR. ROY:
Motion for approval as presented.
MS. THAM:
Second.
MR. ROY:
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Second.
Any discussion?
(No response.)
MR. ROY:
Hearing none, all in favor "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
Next order of business is under the Small Business Loan Guarantee Program. Mr. Brown, The Natchez New Orleans, LLC. Good morning.
MR. BROWN:
Good morning, Chairman Roy and LEDC Board.
This morning I have with me sitting next to me to the right of me is Mr. Gary McNamara. He is with First Bank & Trust. He is the loan officer on this project, and I won't botch his title. I'll let him tell you his title later. I have Mr. Jonathan Weber and Mr. Earl Weber, son and father respectively.
This morning, First Bank & Trust is requesting a loan guarantee under the Louisiana Small
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Business Loan and Guarantee Program. This project satisfies LEDC Board criteria with a proven concept, a niche in the market and the potential of six new jobs with this.
Natchez New Orleans is a newly-established hotel, extended-stay hostel, and is owned by father and son, Earl and Jonathan Weber. Jonathan Weber will be the majority owner of this project, and he will be the operator of the extended-stay hotel. Jonathan Weber has previous experience in property management development, including design, financing and construction and marketing and selling. He's a graduate of LSU in finance. He's been working with his dad with other endeavors as well.
This project is requesting a guarantee of $1.5-million. The total loan amount will be $3,224,000. This will be a $6.5-million project with a

tremendous equity injection of tax credits that was awarded to them. The guarantee will be a 47-percent guarantee relevant to the loan. The funds would finance the term construction loan, interim and term construction loan on the extended-stay hotel, plus FF&E. This project will cash flow very well, 1.5-to-1. In others words, with that, a 50-percent occupancy rate, this hotel, for every dollar of current debt can
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generate a dollar and a half, so it's a pretty solid capacity.

I believe Mr. Earl Weber and Jonathan Weber will do well with this. They understand the business. They're well established in the community. They've worked on several development projects, but this is a little bit less sophisticated, this endeavor, than what they've done previously. Mr. Weber was involved intricately with the Shreveport -- Building and the development of that -- and the development of that and revitalizing that, and they have been key with the revitalization of New Orleans area, in particular with CEB, you know.

Having stated this, based on the analysis, staff recommends Natchez New Orleans, LLC, for a guarantee and offer the following conditions and covenants that are in the term sheets before you if you choose to accept this. If you have any questions, we're here.

MR. ROY:
Any questions or comments from the Board?

MR. REINE:
Very quickly.

MR. ROY:
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Mr. Reine.

MR. REINE:
Maybe I just -- y'all need to help me understand. The loan guarantee is 47 percent of the bank loan? Is that what it is?

MR. BROWN:
Yes. It would be covering 47 percent of the bank loan.

MR. REINE:
And 47 percent is tax credits?

MR. BROWN:
Well, the tax credits that we're looking at with the percentage of -- 40 percent of the tax credits is of the entire project of $6.5-million. The whole project. The loan is only $3,224,000 of it.

MR. REINE:
How many dollars in tax credits does it equal?

MR. BROWN:
$1.3-million in tax credits.
This is a very old building. I was there on Thursday. The building was built on 1830.

MR. REINE:
How much? Tell me the number again.

MR. BROWN:
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$1.3-million. That's combined. That's state tax credits, part or a proportion of it, and a

proportion is federal tax credits.

MR. REINE:
That's 2.8 of $6.5-million?

MR. BROWN:
That's $1.3 out of 6.5-million.

MR. REINE:
Well, you've got the loan guarantee and -- I was just looking to see the -- I'm fine.
I do have one more question. It doesn't really even concern this one, but once upon a time when we were doing a committee meeting, is there a process in which when we discuss these, we assure that the principals in any of these have no tax liability to the State?

MR. BROWN:
Yes. We do our due diligence. That's done in our due diligence process, yes.

MR. REINE:
That's all I need to know. Thank you.

MR. ROY:
Very good. Any other questions or comments?

MS. THAM:

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I have a question. Is there anybody else in New Orleans meeting this particular niche with a very high-end hotel, 300 to 900 per night, in the CBD?

MR. EARL WEBER:
There are several vacation rental properties that are operating illegally, frankly. There are over 500 vacation rental properties similar -- not similar in quality, but similar concept, operating independently in the city, but it's not legal. It's not really enforced by the city, but it's not -- this will be a legally-operated hotel, and there's a huge demand.

MS. THAM:
For the extended-stay, 300 to 900, are we seeing that in any other cities?

MR. EARL WEBER:
Everywhere. The fast growing segment of the hospitality industry, this type of property, because folks like to travel with their family. If they come in, rather than you staying on the third floor and the 15th floor and the 8th floor, everybody's in one place, and it's a huge -- it's a big market, fastest growing segment in the hospitality industry.

MS. THAM:
You think there would be enough business and enough people wanting to stay in the CBD that would

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meet this price? There's plenty of demand?

MR. EARL WEBER:
We had one of those rentals that are on the borderline, and I have over 19,000 inquiries, so I have -- that's what actually triggered us going into this type of development because there's a phenomenal demand that's there, and there is one vacation rental property that's operated, you can throw a baseball from our building to this building, and they're running 91 to 92 percent occupancy.

MR. MCNAMARA:
If I could just say -- I'm Gary McNamara, first of all, with First Bank & Trust -- we

have analyzed this to death probably for the last nine months. What we like very much about the prospect of this is that it is centrally located, basically equal distance from New Orleans Convention Center, easy walk to the French Quarter, easy walk to the Superdome. It's also a block and a half away from the Federal Court Complex, so we see a lot of potential. This is upper-end users, so we see a lot of potential demand, both during the week and also peak times for this type of property. It's a very safe location. We've also analyzed it substantially in terms of fallback scenarios, and we think this is a -- it's a niche
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situation, but we wanted to utilize LEDC guarantee for two purposes, first of all as an enhancement as far as the guarantees offered by Earl and Jonathan Weber and various entities that are also guarantors for this loan, and, additionally, to minimize the volatility as far as the market risks in the hotel industry.

But that being said, there's tremendous about of equity going in ahead of this. The LEDC guarantee was only a kick in at the completion of the construction and it's an operating hotel. And we've also very much had the pleasure of working with Seth in terms of this particular project and some other things we would like to get back here to utilize the LEDC Guarantee Program.

MR. REINE:

You talked too long and let me think of another question. Y'all are only going to create six jobs? Y'all are going to run this whole operation with six people?

MR. JONATHAN WEBER:

What's going to be the plan for the six jobs is two managers, it's a maintenance-type person that will be at the building and three housekeeping-type people as well. We'll also be there full-time. We didn't include ourselves in the job creation part, and
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we'll also be -- in some of the numbers that you received, we get a cleaning fee for every person that comes, that's not included on the income that we had given to you on the pages, and that's because a lot of that will be offset with either part-time employees or with farming it out to other companies that will help with housekeeping when it's -- say there's a turnover for eight units in a day, the three housekeepers won't be able to keep up with that, so we will need to either get some part-time employees in for that or farm it out to another company that would have some of their employees come to do it as well.

MS. THAM:

And you're projecting anything over 30 and a half percent to be breaking -- to be profit?

MR. JONATHAN WEBER:

That's correct, yes.

MS. THAM:

Profits?

MR. EARL WEBER:

And I will throw in also that the nightly renting rate that we are using is very conservative. Based on the numbers out there that exist, those numbers are extremely conservative.

MS. THAM:

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Is that compared to rack rates where they're actually --

MR. EARL WEBER:

It's what other vacation-type rental properties are getting.

MS. THAM:

Actually getting, not rack rates?

MR. JONATHAN WEBER:

When you break it down, it's about $185 per bedroom. If you look at it compared to a hotel room that is a high-quality hotel, it's actually lower than a lot of high-end hotels, so we tried to use a conservative number in that regard.

MR. ROUSSEAU:

Do you make a reservation or is it through VRBO?

MR. JONATHAN WEBER:

VRBO is definitely a big asset, and HomeAway, there's Airbnb. You know, because we will be a legal hotel, we will have the option of doing lots of things. The Federal Courthouse is literally -- I don't want to use that I could throw a baseball and hit it, but you literally, from our patio, you can throw a baseball and hit the Federal Courthouse, and there's just a tremendous amount of opportunity that we can't

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tap right now, but we will have that option once we have the hotel in place.

MR. ROUSSEAU:

So you can make a reservation both ways?

MR. JONATHAN WEBER:

Absolutely.

MR. EARL WEBER:

Of course.

MR. JONATHAN WEBER:

You can go on Hotels.com, you can go on a website called VRBO. There will be a lot of different avenues to get eyes on the property.

MS. THAM:

So are you marketing it mostly business or mostly towards travelers?

MR. EARL WEBER:

We have both in sight, but basically at this point it's been mostly vacation travelers because we're three blocks from the French Quarter, a very short three blocks and a very safe three blocks.

MS. THAM:

So you're probably going to do most of your marketing in that then?

MR. JONATHAN WEBER:

We kind of feel that during the week

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we'll get a lot of business travelers.

MS. THAM:

That's being the CBD?

MR. JONATHAN WEBER:

Exactly. The CBD. From Monday through Thursday, somewhere around there, will be big on business travelers. Thursday through Sunday is normally very large on vacation travelers.

MR. ROY:

Any other questions or comments?
(No response.)
MR. ROY:
Hearing none, what is the pleasure of the Board?
MR. ROUSSEAU:
I move we accept.
MR. ROY:
Motion for approval as presented.
MR. REINE:
Second.
MR. ROY:
Second.
Any other discussion?
(No response.)
MR. ROY:
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Hearing none, all in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
Congratulations. Please keep us posted on your success. We look forward to hearing about it.
MR. EARL WEBER:
Thank you.
MR. JONATHAN WEBER:
Thank you very much.
MR. ROY:
I'll ask for a motion from the Board to take matters out of order off of the agenda.
MR. REINE:
So moved.
MR. ROY:
That move requires a motion.
MR. ANDRE:
Second.
MR. ROY:
Motion and second.
Any discussion?
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(No response.)
MR. ROY:
All in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Thank you.
What we would like to do, Susan, is take the item that is listed under Other Business, LA Fund II, the update first, and then we will have the application following that.
MS. BIGNER:
That's correct.
MR. ROY:
Help us out Susan.
Morning, gentlemen.
My mistake. It's under 12. The last sheet.

MS. BIGNER:
It's just a memo and it's from me to the Board and it talks about Louisiana Fund II, LP. That's the title on the memo. I've got Richard Babb here and Joe Lovett, also, because we're going to go into further discussion about Louisiana Fund II after this.
Back in February of 2012 -- it says '11, but it was actually '12. I apologize -- the LEDC Board approved an application for Louisiana Fund II for a million-dollar commitment from the SSBCI-funded Louisiana Seed Capital Program. They were estimated to have a final close of approximately 50-million, and these funds were going to be used to match the $1-million SSBCI fund. Joe Lovett -- Joseph Lovett, Richard Babb and Thomas Dickerson are the managing directors of Louisiana Fund II.
In August of 2012, we released the commitment to Louisiana Fund II because we could not get a final subscription that was -- because the SSBCI program is very strict about how the funds are to be used and there's documentation that has to be met, it was really hard for the general partners to come up with language that the limited partners would be willing to accept, so we tried again back in September. They resubmitted, and the LEDC Board gave them 60 days to do a final subscription agreement. Again, there was too many hurdles, too many blocks and they could not come up with an agreement that the other LPs would be willing to take, as far as the management fee would not be paid until we exit out of the fund, so the other limited partners would be carrying that fee through the life of the fund. Also, because this million dollars had to be spent on projects within Louisiana, the fund had to be separated from the limited partners and could only be put into certain projects if the projects were in Louisiana and met the guidelines for the SSBCI from the US Treasury's Office. The exit would have also been different for us than it would have been for the limited partners. So we tried until July to come up with an agreement between the general partners and LEDC, and we still just could not do it. So at this time, we're asking that the Board withdraw the commitment for the $1-million from the SSBCI-funded Louisiana Seed Capital Program to Louisiana Fund II. We're just asking that the commitment be withdrawn.
MR. ROY:
All right. Does that actually require an action by the Board to withdraw something?
MS. BIGNER:
Yes, it does.
MR. ROY:
Okay. That's what we'll try to do.
Motion to allow them to withdraw?
MR. REINE:
I have a question first.
MR. ROY:
Yes, sir.
MR. REINE:
Is anybody here from Louisiana Fund II?
MS. BIGNER:

Yes, sir. Joe Lovett and Richard Babb.

MR. REINE:
So they're aware of what we're doing?

MS. BIGNER:
Yes, sir, because we're fixing to come back and do another request.

MR. REINE:
You didn't tell us that part yet.

MS. BIGNER:
No, I haven't yet, but in their package, there's another request for LA Fund II, but it's under a different program.

MR. REINE:
All right. I move we withdraw the funds or whatever you want.

MR. ROY:
Motion to allow them to withdraw the commitment.

MR. ROUSSEAU:
Second.

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MR. ROY:
Second.
Any discussion?

(No response.)

MR. ROY:
Hearing none, all in favor, "aye".

(Several members respond "aye".)

MR. ROY:
All opposed, "nay".

(No response.)

MR. ROY:
Without objection, it is withdrawn.
Now, we'll go into the rest of the story, as Paul Harvey said. Tell us the rest.

MS. BIGNER:
All right. In your package, you should have received rules for a program called Louisiana Venture Capital Match Program. This is the existing Venture Capital Program that we've had for 20 years or so. Any investments that we have made previous to the SSBCI Funds were usually within this program. Like I said, Louisiana Fund II has applied --

MR. ROY:
Tab 6?

MS. BIGNER:

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Okay. I'm sorry.
So those are the rules that we are going to request this commitment using these rules rather than the Louisiana Capital Seed Fund, the Louisiana Seed Capital Program.
In 2003 -- what we're doing is, in 2003 LEDC committed $750,000 to LSU Research & Technology Foundation to create startup and an initial investment into Louisiana Fund I. At the time, we had also made a $5-million commitment, and this was under the University Foundation Investment Program. The Foundation used $375,000 for startup costs, and the remaining 375 was transferred to Louisiana Fund I for investments over the past year. Louisiana Fund I has invested 5,266,250 of the 5,375,000 commitment, and is expecting approximately 10.9-million in distributions over the next three years.

Louisiana Fund general partners is proposing that as the returns are received from the Louisiana Fund, that they be reinvested or set aside for investment into Louisiana Fund II over the 10-year life of Louisiana Fund II. This means that LEDC will not have any out-of-pocket capital costs, but still be able to participate in Louisiana Fund II. As the distributions are made, LEDC will invest a portion, such as 10 percent for a capital call, with the remaining amount to be set aside to fund
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future capital calls not to exceed the $5-million proposed commitment. Any distribution that exceeds the 5-million mark will be returned to LEDC for future appropriation.

Louisiana Fund II will be a 10-year fund with two possible one-year extensions. The general partners expect to make initial investments during the first five years allowing these companies to mature and exit within the 10 to 12-year expected lifespan of the fund. The fund is expected to focus on research and development, healthcare and innovative companies within the southern tier of the U.S.. This includes Arizona, New Mexico, Texas, Oklahoma, Arkansas, Mississippi, Alabama, Florida and, of course, Louisiana.

There appears to be higher accessibility to federal grant funding within this area for research and development and healthcare compared to the available Venture Capital. Also, the large pharmaceutical companies are allowing small companies to create and develop technologies and products, taking them through the testing stages and when they become -- they show that they're effective, they're willing to step in and purchase those companies for the technology or the product and then do production and marketing.

The general partners have experience
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dealing with these type of startups, grooming them and advising them as they go through these early stages. Also, Louisiana has grown within the last seven years since the creation of Louisiana Fund I. There are at least four well-staffed technology centers across the State at LSU, Tulane, UNO and Louisiana Tech. Five incubators across the State in New Orleans, five innovation centers, Launch Pad in New Orleans, Louisiana Emerging Center in Baton Rouge, Biospace Incubator in Shreveport and the Enterprise Center in Ruston, along with entrepreneur training centers, resource services and networking resources in Louisiana have expanded as well.

The State has increased its tax incentives for research and development, technology commercialization, digital media and angel investors. There has also been an increase in Venture Capital Fund creating new deals for Louisiana Fund II -- excuse me. I'm sorry -- creating new deals for Louisiana Fund II's consideration and possibly act as a syndicated partner. Louisiana had lots of new possibilities, and Louisiana Fund II will be taking advantage of that. The State will be well covered with Joe Lovett and Richard Babb in Baton Rouge, Tom Dickerson in New Orleans and their venture partner, Bo Lockhart, in Shreveport.
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LEDC will have a limited agreement

exactly like the other limited partners with which it will include paying a management fee during the life of the fund. The fee will be approximately 2.5 percent during the five-year investment period, and will decrease the remaining years not to be less than 1.5 percent. The assets will also be like the other limited partners. These limited partners include the Baton Rouge Area Foundation, Louisiana Public Facilities Authority, Louisiana District Attorneys Retirement System and other Louisiana investors.

There's some difference between the Louisiana Venture Capital Match Program and the SSBCI portion of the Louisiana Seed Capital Program. For one, we can do a $5-million investment under this program, where the previous program, we were only able to do a million dollars. The match must be 2-to-1, where in the SSBCI, it was 1.5-to-1. This is going to be a million-dollar fund, expected not to exceed 60-million, so we can meet the match without a problem, can charge a management fee during the life of the fund, versus no management fee until the exit of investments. The investments are not necessarily limited to just Louisiana. It's for the southern tier itself is what the Louisiana Fund II is expecting.

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For the Seed Capital Program, they can only be Louisiana companies. Louisiana Fund II is going to have to do a sidecar with a completely separate agreement for us under the SSBCI. Under this program, we will have a limited partner agreement, just like all of the other limited partners. It can be for any industry at any stage of development, whereas the SSBCI Louisiana Seed Fund had to be a seed or early stage. These are state funds versus federal funds. The federal certifications won't be necessary, and funds can be called at any time during the life of the fund versus that they must call the fund within three years of signing the final agreement.

The general partners tried to establish a sidecar for the federal funds, but due to such strict guidelines, it was difficult. It was impossible. The LEDC investment would have had to be accounted for separately and not like the rest of the LPs.

Louisiana went in with LSU to create Louisiana Fund I, and all of the general partners are asking that we continue to invest, but instead of putting additional funds into Louisiana Fund II, we will be reinvesting funds as they're distributed for Louisiana Fund I.

MR. ROY:

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Let's see if there's any questions from the Board at this point.

Any questions or comments thus far?

MR. REINE:

I'm completely lost, but...

The one that we just canceled was federal money?

MS. BIGNER:

Yes, sir.

MR. REINE:

That required it being invested in the State of Louisiana?

MS. THAM:
Yes, sir.
MR. REINE:
And you're talking about State money that's not going to be restricted to investments in the State?
MR. LOVETT:
No. Let me clarify that.
No. Susan was quoting from our, essentially, PowerPoint presentation. The first fund, we had a requirement from you that all of your $5-million be invested in the State, and, in fact, Louisiana Fund I, all $26-million, we've invested almost
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all of the money in Louisiana. We expect the same requirement of your 5-million for that second fund, and we expect most of the $5-million to be invested here.
MR. REINE:
Okay.
MR. BABB:
It's a side-letter agreement that your 5-million would be --
MR. REINE:
And that's part of this package?
MS. BIGNER:
I'm sorry. Yes, it will be.
MR. REINE:
So the state investment will be invested in the state?
MR. BABB:
Yes. Five-million of the 26-million would be invested in the state.
MR. REINE:
I don't know how many zeros 5-million is.
Tell me -- so the main difference is we have different requirements under this program than we had under the one with federal money?
MS. BIGNER:
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For the federal fund, they have federal certifications that have to be completed, and there are strict guidelines about how the funds can be invested. For each investment, there's additional paperwork that has to be completed. There's a lot more accounting that has to be done with the federal funds than the State funds. They literally have to separate it, keep it separated during the whole time and it cannot be mingled with the other fund because the other fund can be --
MR. REINE:
We did away with that, didn't we?
MS. BIGNER:
Right. With these funds --
MR. REINE:
Where is the agreement that the money is going to be spent in Louisiana?
MR. LOVETT:
We actually haven't drafted the side letter yet for your participation, but we're basically going to clone the language from the first fund into the second fund.
MR. REINE:
Mr. Chairman, when we make a motion, can

we make it contingent upon the requirement that the money be spent within the state?

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MR. ROY:
We can, and perhaps you could give us the details of what that prior agreement was. My understanding was that you said the majority or most of the money would be spent --
MR. LOVETT:
All.
MR. ROY:
All?
MR. BABB:
All of the 5-million.
MR. LOVETT:
All of the 5-million.
MR. REINE:
So the benefit to the state, other than we're going to invest into the state, is there a return on the money?
MS. BIGNER:
Yes, sir. There is an exit. As Joe and Richard go into these companies, as they're looking at them and deciding on whether to do an investment into them, they're also deciding what it's going to take to get the company to mature enough so that it gets exits, and when it exits, then that's when we would get our return.

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MR. REINE:
The return is based on an interest rate or a percentage of profit?
MR. LOVETT:
No. It's a Venture Capital Fund, and the way it works -- I can tell you the way it worked in the first fund. The first fund was $26.1-million, and the general partner put in some money also with the limited partners. The way it works is, the limited partners get all of their $26.1-million back first, then the profits are split 80 percent to the limited partners, the investors, and 20 percent to the general partners. Louisiana Fund II is the same structure.
MS. BIGNER:
And we actually would own part of the fund itself, so it's like two, three percent -- I don't know that it would be that on this one -- so after the $26-million -- after the $50-million would be returned, then it would be 80 percent times whatever our percentage is.
MR. MESSER:
Mr. Chairman, for one second, it might be of help to my colleagues on the Board, if under Tab 6 there is Section 4, the Investment Strategy begins on Page 48. On Page 48 through 53, it talks a little bit

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about the path -- the exit path to exit, as well as the exit capable syndicates to which Susan alluded. And then if you look at Page 53, the Prior Performance, Section 5, you might be able to see the performance of Louisiana Fund I. I don't know if that's helpful to my colleagues, but it might directionally anchor the conversation with regard to the possible pathway to exit.

MS. BIGNER:
So what we're saying is that when these companies exit, when they're either sold or go to an IPO, they sell the stock, then we exit out of the investment and we take our distribution from there.
MR. REINE:
Okay. I'm not trying to give you a hard time.
MS. BIGNER:
No. Please ask any questions you have.
MR. REINE:
I'm sure you've adequately reviewed this, but if I'm going to vote on the taxpayers' money, I'd like the records to show at least there's some due diligence of where the moneys are going.
MS. BIGNER:
Of course.
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MR. REINE:
Tell me the fund this is coming out of?
MS. BIGNER:
It's coming out of Louisiana Fund I.
MR. REINE:
What funds are appropriated?
MS. BIGNER:
We have a commitment for 5,375,000, and then that money was invested up to all except 180,000 of it right now into these companies.
MR. REINE:
It is state money?
MR. LOVETT:
Yes.
MS. BIGNER:
Yes.
MR. REINE:
It is appropriated for the sole purpose? So this is what we do with it, it's not outside --
MS. BIGNER:
No, sir. That's the reason why I sent the rules with the package so that you can see that this is the program that we're going to be doing this under. As you can see, the District Attorneys Retirement Fund also does these types of investments. Baton Rouge Area
0039
Foundation also does these types of investments. That's where they get their fund to return on your fund, which is also for these types of investments.
MR. REINE:
Mr. Chairman, I don't have any other questions. If they talk too long, I'll think of something.
MR. ANDRE:
When you look at our fact sheet, on the second page, is says "Use of funds," and it specifically says all of these states. You're telling me this side agreement is going to be negate?
MR. LOVETT:
Yes, it will.
MR. BABB:
It's not going to negate that. That fund is going to be a $50-million fund, just like the first fund was a $26-million fund. What we did with the $26-million fund is that we had a side letter agreement,

which was $5-million under the $375,000 (sic) would be invested in Louisiana companies, and that's been achieved in Fund I. And we'll do the same thing for Fund II. What we can do, our other limited partners require a return, and they would be willing to just -- we still have to make money, but again, in Fund I, we've
0040
invested the money. Right now, the 5-million that LED has invested has a value of a little over $10-million, so that money has doubled.

MR. ANDRE:
When I read this before coming to this meeting, I was very concerned with the use of funds. You don't say anything about a side letter or anything.

MS. BIGNER:
Yes, sir. I'm sorry.

MR. ANDRE:
It would be used anywheres.

MR. BABB:
Yes, and that's the partnership agreement.

MR. REINE:
If y'all don't agree, y'all are in trouble.

MS. GUESS:
Mr. Chairman, I think that maybe one of the things that we can do to make certain that it is included as part of the record for what we have, there are nine recommendations in Susan's list as contingencies, and that needs to be contingency number 10.

MR. REINE:
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Where are they?

MS. BIGNER:
They're on Page 4.

MS. GUESS:
On Page 4 under Tab 6.

MR. ROY:
So does that mean our 5-million, as it is invested in Louisiana companies, as profits are taken from those companies, we will get our return at that point. We may be investing in other investments outside of the state, et cetera, but in the event that happens, that does not impact us. It impacts others. They would get that return. Our returns are going to come only from Louisiana companies?

MR. BABB:
No. Your return is coming from the entire fund. All we're committing to is, in Fund I -- I think the best way to is we're mirroring Fund I for Fund II. Fund I is a $5-million commitment -- 5.375. Sorry. Whereas we committed in that letter that of the $26-million, 5.375 would be invested in Louisiana companies. We've more than achieved that. About 17-million of the fund was. We did a company in Texas, and we did one other of the 13 companies we did. You still participate in the whole fund. You know, we're
0042
not allocating gains and losses by Louisiana and outside.

MR. ROY:
We're not the only ones who are

investing from Louisiana?
MR. LOVETT:
No.
MR. ROY:
And I assume we're not the only ones investing in Louisiana that have such a requirement that it be invested in Louisiana?
MR. BABB:
Yes, you are.
MR. LOVETT:
The only one that has a specific requirement. The intention of the fund when we set up the fund in 2004 was to invest almost all of the money in Louisiana. In fact, we've done that, and as many of you know, we work very well with universities, ULL University licenses here. Some of the money has been invested out of state. There's some university licensing involved. The technology happens to be out of state to develop that technology. The return to the universities and return to the fund will be here, so in practice, we anticipate the same thing with the second
0043
fund.
MS. BIGNER:
So what --
MR. REINE:
So recommendation 7, this is -- only the return of investment from Louisiana I that will be invested in Louisiana II?
MR. BABB:
Yes.
MS. BIGNER:
That's correct.
MR. REINE:
Mr. Chairman, I'd like to make a motion to put it on the table for further discussion, if you're roady.
MR. ROY:
Okay.
MR. REINE:
I move to approve contingent upon meeting all of the nine recommendations listed on Page 4, plus a recommendation Number 10 that requires a letter of agreement that the money be invested in the State of Louisiana only and that all of those have to be met in order for it to move forward.
MS. BIGNER:
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Okay. This is the way it goes. You've got a $50-million fund, and the agreement or -- we're looking at Louisiana Fund I. You have $26-million in this fund --
MR. REINE:
Can you put it hold one second?
Mr. Chairman, do you accept my motion?
MR. RAY:
There's a motion on the table.
MR. ANDRE:
And I will second that.
MR. ROY:
Just a second. Susan, let me make sure that the other Board members may have questions or comments, and then we'll go back to you.

Anyone else have questions or comments at this point?

(No response.)

MR. ROY:

We have a motion and a second on the table.

MR. REINE:

I'd like to hear from her now.

MS. BIGNER:

All right. Louisiana Fund I had

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$26-million. LEDC requires that at least 5-million of that 26-million be invested in Louisiana companies, and that was the agreement that we were hoping to also make into this one. So at least 5-million would be invested in Louisiana companies. As it turned out, the majority was invested in Louisiana companies.

MR. REINE:

I'm fine with that, but they have told me that whatever money we invest in Louisiana II that are state dollars will be spent in the State of Louisiana.

MS. BIGNER:

Okay.

MR. REINE:

And I want that part of the motion, which we've already agreed to here, and we are going to see that in writing before we move to the final stages.

MS. BIGNER:

Yes, sir. I'll make sure to include that.

MR. REINE:

Let the minutes reflect that the motion I made will -- because you want these other nine things before you move forward; correct?

MS. BIGNER:

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Yes, sir.

MR. REINE:

I want Number 10 done before we move forward. So that's my motion.

MS. BIGNER:

Yes, sir.

MR. ROY:

Any other questions or comments from any other Board members? Anyone else?

MS. THAM:

Just to clarify, so if we look at this, anything we invest in, everybody that's a partner will have a share in it, so if we come to an investment in Arizona, when you come to the end and you're splitting profits, we'll have our percentage from Arizona companies, but we're just getting a commitment that at least 5-million of this amount is going to be used in Louisiana, so we'll still have investments in Arizona?

MR. BABB:

Yes.

MR. SIMPSON:

You said there's a breakdown of 80 percent or 20 percent. Are we part of the 20 percent or the 80?

MR. LOVETT:

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You're the 80, limited partner.
MR. ROY:
Any other questions or comments?
(No response.)
MR. ROY:
We have a motion and a second on the table.
Any other discussion?
(No response.)
MR. ROY:
Hearing none, all in favor "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
Please keep us posted. We're anxious, as you can tell, to know about Louisiana companies.
MR. LOVETT:
Okay. Thank you.
MS. BIGNER:
Thank you.
MR. ROY:
Okay. We have several matters that we
0048
need to discuss that are policy related, and we are going to take these up. Is Susan coming up first?
MR. BROUSSARD:
Actually, I'm going to handle the Small Guarantee Program. Brenda will handle the last one, which is Louisiana Seed Capital Program, and Mr. Cangelosi is going to handle the EDAP.
MR. ROY:
Very good. Rick, the Small Business Guarantee Loan Program.
MR. BROUSSARD:
Good morning, everyone. I've handed out a revised memoranda, if you would, in front of you, and what we did is we wanted to update the Board --
MR. ROY:
For the benefit of the new Board members, give us an overview of the program, the history and to what extent it's been around and whatever else you want to add to that, and then take it from there.
MR. BROUSSARD:
Sure. I'll be glad to.
The Small Business Loan Guarantee Program I think was first enacted in the late '80s, the 1980s. The purpose of the program was to help businesses startup, with expansions or startups, and we
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offer a loan guarantee to bankers who make the loan. If there's no other risks involved in the loan, a commercial loan, we provide a loan guarantee. We do a 75-percent guarantee on the principle of the loan in order to help the banker feel more comfortable to make that loan and create jobs that way, help businesses startup, expand in the state and pay more taxes through payroll and income.
The program's been around since the late '80s, and it's still going strong. We've recently amended the program when we received federal funds, and

that's really what we're going to talk about today.
I guess we normally do about eight. When we first started, we did 12 to 13 loans a year. It's been slow the last few years, and there's a reason why. We're going to address that in this memo. And ultimately what we're going to do is compare the LEDC Loan Guarantee to our competitor, which is a federal agency, the Small Business Administration 7(a) Loan Guarantee Program, and then ultimately we're going to -- at the end of this, of my time here, we're going to make some recommendations to improve the Loan Guarantee Program to be more competitive with SBA. So we'll run through a quick, brief overview of what we've been doing in terms of marketing the program. Historically, we
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deal with -- what we've seen in association with SSBCI funds, then we'll get to the proposals that we're going to suggest to the Board.
So if I may, is that sufficient, A.J.?
MR. ROY:
It is. Let me just make sure our two new Board members, and for that matter, if anyone else has a question about currently where we are in the history of the program are relatively okay.
MR. BROUSSARD:
Yes, sir.
(No response.)
MR. ROY:
Okay.
MR. BROUSSARD:
Historically we've marketed the LA Small Business Loan Program by participating in Economic Development and banking seminars as well as one-on-one meetings with bankers and small businesses. That's really what we are doing. Recently, though, we've stepped up our marketing efforts, and I want to apprise the Board of what we've been doing. We've developed an online marketing survey tool we can use, so when we visit bankers, we can send that out to them by e-mail, and it's anonymous and it's voluntary. So we just
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started this. We ask about eight simple questions, "What's your opinion about the program after hearing it? "Was the presentation done in a professional manner?" "Was the LEDC staff prepared?" And more importantly, "Would you use the program, and if not, what changes would you propose so that you might be more encouraged to use the program?" We've only gotten a few responses back from it. This is voluntary, but we're compiling those, and of the responses we got, they've been favorable. In the future, when these responses start to accumulate, we'll come back to the Board and let you know what the bankers said of the program.
In July, we were invited by the Louisiana Bankers Association to present the Loan Guarantee Program in a senior bankers roundtable forum. Most of the staff showed up. After the presentation was done, we said, "What do you think about the program?" They all pretty much said, "Yeah, we're in favor of it. We would be inclined to use it." One of the bankers said something very interested and had I been in his place, I would have said the same thing. He said, "Let me ask you a question. Why would I apply for an LEDC

loan guarantee for the three-year term when I can go to SBA and apply for the same guarantee and the same percentage for up to 20 years?" Actually, if you look

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at the rules of the SBA, it's up to 25 years. We said, "Yeah, we're aware of it. We've got federal funds that came with strings attachments to it. We have performance standards. We have to turn the federal money over twice within a five-year period, so it necessitated a three-term." They understood that. It didn't make us competitive, but we understood the rationale. The U.S. Department of Treasury has contacted them directly and asked them to help us market the program in their online publication, Louisiana Banker. It's a publication you get, I get, probably most of the banker in the State, and they've agreed to do that, so we'll see more exposure through that publication.

In late August, we began sending out marketing letters to small business owners, banks and chambers of commerce throughout every region in the state. We sent out five or six hundred letters. The letter really describes the purpose of the program and the benefits and invites a business owner or manager to directly call the staff and ask questions about the program, see if we can -- or if they can use this Loan Guarantee Program to assist in securing loans for small businesses, and we've got some calls and e-mails. We're just starting to get those calls right now. We'll report on that letter, too, when we get more feedback in

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generation of the letter.

In terms of the historical perspective from the Small Business Loan Guarantee Program, we've been in contact with SSBCI, State Small Business Credit Initiative. We started approving these deals in December. If you look at the stats through September 2013, we've approved 19 deals, loan guarantees. Applications for these loan guarantees total about $7-million. Of those guarantees, seven applications were approved by this Board. They total about $4.2-million. Six of the applications total a little over $2-million were approved by the Screening Committee of this Board, and six of the applications totaling about 737,000 were approved by the LEDC in-house committee.

So that's where we are in terms of the federal dollars that support this Loan Guarantee Program.

If you look at the memo, what we did at A.J. Roy's request previously, a few months ago, is we took the SBA 7(a) Loan Guarantee Program and we put it right next to the Loan Guarantee Program that LEDC has and we looked at the difference and we looked at the similarities. What we found was that both programs are very, very similar. SBA offers a 75-percent loan

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guarantee on loans above 150,000. We do, too, 75-percent across the board. At the end of the day, we looked at that and we came together as a staff in looking at these differences for several weeks, and we found two things. One thing we have going in our favor, we don't charge application fees and we don't charge guarantee fees. Now, if you consider it, some of these guarantees are fairly high. The guarantee would be between two and four percent. That's a fair amount of money. So we're very conservative in terms of costs, the costs to borrow anything. The bank would pass that cost of the guarantee fee and the application onto the borrower.

Where we fail at is where that banker at the LBA roundtable brought up was, "Why would I apply for a three-year guarantee through the LEDC when I can get 25 years from SBA," and that's where we focused in on.

MR. ROY:

Rick, quick question, back when -- did we charge a fee then?

MR. BROUSSARD:

Yes, sir, we did. If there -- if they were a little light, for lack of a better term, or we pushed it on equity, it could go all of the way up to

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four percent, and on a very large loan, that was a lot of money.

MR. ROY:

At that point, if I recall correctly, it was a fairly considerable source of income for LEDC.

MR. BROUSSARD:

It was our main source of income, yes, sir, that and return on investments, yes.

MR. ROY:

Okay.

MR. BROUSSARD:

And that's what was competitive was the term, so we looked at various types of loans that we do, and what we're proposing that the Board approve today is the recommendations on the packet and I will cite those if you would like.

On the revolving lines of credit, we would extend the term to three years with the option to extend the guarantee for an additional two years. The maximum term of a LEDC guarantee on a revolving line of credit will be five years. Now, under the old program, we had a decline in balance of one-third over three years for a loan, and it would zero out in the third year. What we're doing is removing that language from the rules. Nobody else has it. We're not sure why it

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was proposed in the first place, and it certainly helps us to compete better with SBA.

On equipment term loans, we extend the term for five years with an option to extend the guarantee for two additional years based on the bankers providing us with the appropriate risks to justify the extension. To match the term, the LED recommends that term loans be seven years. And real estate loans, we would extend the term to seven and a half years with an option to extend for an additional seven and a half based on the bankers establishing appropriate risks to justify the extension. The maximum term on a LED loan guarantee real estate loan would be up to 15 years.

Now, those are the three recommendations we've made. There is one contingency on here, that these are federal funds coming from the U.S. Treasury. If the Board agrees to approve these changes, what we would do is go to the Treasury and ask for their

approval on these changes. We wanted to write them before we actually came down to propose the advisories.
That's the presentation. Does anyone have any questions?
MR. SIMPSON:
That was going to be my question. Does this fall within the federal guidelines you had
0057
mentioned before, does it need to be a three-year?
MR. BROUSSARD:
The three years was proposed by staff. We had -- these moneys were supposed to generate a 10-to-1 ratio. Ten dollars private money for every dollar we spend of federal dollars. What we've -- and Brenda might be able to respond to this a little bit better than I can. She's been in touch with the U.S Treasury. What we've found is since they won't hold us to the 10-to-1, it's a target, and we're going to come in very close. Again, Brenda can comment. We're going to come to seven to eight instead of 10, and they seem to be comfortable with that.
MS. GUESS:
Well, the 10-to-1 was a goal, and when we attended the conference several months ago back in Dallas, the Deputy Director Don Graves addressed the group and the reason and the rationale was because they didn't want to give the State just money and say, "Here you are. Go out and lend," without putting any type of restrictions or boundaries on it for states to try to achieve. We, along with many other states, are on the far end of getting out the dollars to the small business community state-wide, and the efforts are being made to assist us and other states in trying to shore up our
0058
marketing. In fact, just recently, Treasury has contracts with two individuals in the Louisiana area that will be coming in to assist us with covering more territory and in getting those funds out.
Our request for the Treasury right now that they are in the process of reviewing is for the request of these changes that we have right here. I spoke with them as late as yesterday afternoon. They are -- Treasury was -- this part of Treasury was not affected by the government shutdown. Their money under SSBCI had already been dedicated, so while other parts of the government were shutdown, Treasury was not affected. They weren't even furloughed, so they've been working through this last 16, 17 days, so they are looking at our request to consider us making these changes in our operations of our Loan Guarantee Program. They're looking at the comparison on our original application. In our original application, we're deficient in what we had anticipated because we were offering no fees. The terms that we would have probably done three times as many loans than we have done in the past. That has not been the case. And I think because of us and other states are making projections and we're not been able to do that, that's when the 10-to-1 ratio was not a real absolute target. We recently redid the
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numbers after with the implementation of us extending the terms of loans for either five, seven or 10 years, and we would be recycling funds from SSBCI that would

come back to us later than we had anticipated, we still will meet right at about 9.92 percent leverage on the loan guarantee side. So we're comfortable that they will consider this not as a material change in our original application and we'll be able to operate and offer a much better product, we feel, to get more -- to generate more activity.

MR. ROY:
Any questions or comments at this point?

MR. REINE:
Of course I do.
Section F, that's statute or that's rules? Where it says "terms," those are rules?

MS. VILLA:
Rules.

MR. BROUSSARD:
Are you in the middle?

MR. REINE:
I'm at Tab 7, Title 19, Corporate Business Small Business Loan Guarantee Program.

MR. CANGELOSI:
Those are rules.

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MS. GUESS:
Those are promulgation of the rules.

MR. BROUSSARD:
Yeah. That's a Notice of Intent.
Section F2; is that what you said?

MR. REINE:
Am I in the right place, behind Tab 7?

MR. BROUSSARD:
Yes, sir, you are.

MR. REINE:
First page, Title 19?

MS. THAM:
That's behind Tab 7.

MR. ROY:
Some it's 7, some it's 8.

MS. GUESS:
The changes are under Tab 8 highlighted in blue, which mirrors the presentation.

MR. ROY:
So these are the actual proposed changes to the rules to mirror your presentation?

MS. THAM:
Are you specifically asking for a certain requirement from the Fed for them to change their requirement? Is there specific wording you're

0061

asking for?

MR. BROUSSARD:
No, ma'am. Well, Brenda, I'll let you address this.

MS. GUESS:
There's not a specific requirement other than just the three changes that are listed here on the rule changes allowing us to do the revolving lines of credit for three years with the option to extend for the two with the level guaranteed percentage to remain constant throughout the life of the loan for the equipment, for the extension from three to five years. So everything that we submitted originally was based on a three-year projection, so it's basically to allow us

to generate more business and be more competitive by extending the terms.

MR. REINE:
This is federal money; right?

MR. BROUSSARD:
Yes, sir, U.S. Treasury money.

MR. REINE:
But these are state rules?

MR. BROUSSARD:
State rules that are supported by Treasury funds, yes, sir.

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MR. REINE:
And back to the current rules, what prohibits us under the current rules from doing the things that you're proposing we do?

MR. BROUSSARD:
We can do it on a Board level, but since this is U.S. Treasury money, we need to get their approval before we actually implement it.

MS. GUESS:
When we submitted the original application back in 2011, we provided Treasury a copy of our existing rules, and we had a rule change at that time to take into consideration the federal program that we were about to get into.

MR. REINE:
But if --

MR. CANGELOSI:
If I may give a little further explanation with your permission, the original rule that we adopted said that all loans would be limited to three year, and that was based on our own assumption that we needed a quick turnover of loans. Now, instead of the three-year limitation, we are proposing the A, B & C paragraphs, which give us the opportunity to extend all loans for a longer period of time. That was one of the

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reasons we're not receiving as many loan requests as we thought we were going to receive because we limited them to only three-year terms.

MR. REINE:
I heard that, but here's my problem: I'm reading the rule that you gave me. It says nothing about three years.

MR. BROUSSARD:
The three years is our language.

MR. REINE:
But you don't have the language in here that you deleted.

MR. CANGELOSI:
All we deleted was three years, not to exceed three years.

MR. REINE:
That was at the end of the paragraph?

MR. CANGELOSI:
Yes.

MR. REINE:
Okay. It's difficult to read through the changes when you don't tell me what you deleted.

MR. BROUSSARD:
What we actually did across the board, all of the loans that we received under the Loan

0064
Guarantee Program supported by SSBCI have a three-year term. Whether it's a short-term revolving line of credit or a long-term real estate loan, they all have a three-year term. What Bob has provided here is the replacement language as the revised language.

MR. REINE:
If you simply deleted the three years and the Board had the ability to do this or other things that -- because the way this reads, it limits to this.

MR. BROUSSARD:
Sure. These are parameters in which we administer the program f approved, yes, sir.

MR. REINE:
But the Board has final approval of the program?

MR. BROUSSARD:
The Board has final approval of those rules.

MR. REINE:
I know they've got it over the rules. I'm talking about the programs. If somebody sat at the table and said they wanted eight years instead of seven, absent these rules, the Board could do that?

MR. BROUSSARD:
If the Board approved it, that would be
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it.

MR. REINE:
Why are we going to have rules that limits the decisions the Board can make? Because what these do, these limit the decisions --

MR. BROUSSARD:
It's the language with which it can operate the program.

MR. REINE:
Wouldn't the guidelines be whatever the Board approved on an individual basis?

MS. GUESS:
Well, I think --

MR. BROUSSARD:
Historically, no.

MS. GUESS:
Historically what we've done, we've had taken the rules or utilized the rules to operate all of our programs, and normally in commercial lending, we have fashioned our rules similar to what takes place in the commercial world. If someone came to us and asked for an eight-year term and they -- we would look at the use of the fund, and if they were purchasing an asset that the life of that asset was not eight years, I doubt seriously whether they would be able to -- well, first
0066
of all, the bank -- they would have to go to a bank first, and the bank has to be comfortable and approve that credit, so if someone's asking for -- they're going to buy a laptop computer and they want seven years to pay for it, then you're not going to get a term that's longer than the life of the asset that's being purchased. So we operated with taking the commercial lending operation of tying the term of the loan to the asset of the credit that's being requested.

MR. REINE:

Okay. But that's not what this says, and my -- I don't know that I object to it, but are you telling me originally the language said that LED should have the opportunity to service such loans prior to closing and there was language that there that said "no longer than three years"?

MS. GUESS:
That's right.

MR. BROUSSARD:
But the rationale for the three-year term --

MR. REINE:
I'm fine with getting rid of the three-year term. I'm questioning are we making rules that we come back one day and go we can't consider something because we violated our own rules that we adopted when I'm not sure the consideration shouldn't be given on each deal on its merit by itself and we're limiting ourselves here. And tell me the limits are required by the Fed, and then we're cool, but...

MS. GUESS:
They're not.

MR. BROUSSARD:
They're not. You might want to speak to this as a commercial lender.

MR. REINE:
The lenders are either going to take the deal or not take the deal before we get in any involvement.

MR. BROUSSARD:
Since this program -- since I've been involved since the early 1990s, it's always had terms. Always. Anytime I've ever looked at it before, it's always had terms.

MR. ROY:
Question, if we adopt these rules and then we subsequently want to make an exception, we can do that?

MR. BROUSSARD:
The Board has that capacity.

MR. REINE:
But you have to go back through the rulemaking process to make and exception; correct?

MR. CANGELOSI:
That's correct. You can't make an exception without changing the rule.

MR. REINE:
If you make that rule, you've got to live by the rule or go back through the process and have a public hearing and go through all of that if you want to ever consider a deal that's outside the limitations these rules put on us?

MR. CANGELOSI:
Once these rules are adopted in correspondence with Louisiana Procedure Act, Code of Procedure, they have the effect of law.

MR. BROWN:
If I may, can I speak?

MR. CANGELOSI:
They are followed as they're written. What we would do in case somebody had a real estate loan

and wanted eight years, we could give them as much as seven or seven and a half years initially, and then extend if for another year after that term expires. That was in answer to your question --
0069
MR. ROY:
Under a new agreement?
MR. CANGELOSI:
With a new agreement, that's correct, or an amendment to the existing agreement, but we don't want to be able -- we don't want to put ourselves in a position of not having any limitations on our activities, and these are the activities that we need the Board's approval to allow us to do up to this. Anything beyond this, we would either need to change the rules, but we would only do that with the Board's approval.
MR. BROWN:
Mr. Reine, if we don't have rules in place -- I'm speaking personally as being a program administrator out there. We don't want something to come before the Board that may be venomous particularly where somebody wants to give eight or nine years on something that has a five-year life or a deal like that, so there must protocol in place. Just like SBA has protocol in place for the extended life of the guarantee based upon assets. That's why we put rules in place, so we're operating inside certain policy. You don't want to make that to where one particular project can come in here, which would probably happen, where one project can
0070
come in here and we can just give them the kitchen sink the farm. You know, it's not deemed necessary, you know.
MR. REINE:
It's really not about the particulars of this rule. I don't suspect you would sit at that table and make a staff recommendation to do an eight-year loan on something that has a life of five years.
MR. BROWN:
No, I wouldn't.
MR. REINE:
I'm sure the department wouldn't recommend that.
MR. BROWN:
At this particular -- I wouldn't do that. This particular administration and the people that are in place that adhere to it wouldn't do that, but we don't know what would happen down the line.
MR. REINE:
At the end of the day, it really doesn't matter what you recommend or don't recommend. The Board has the authority to vote yes or no to the package presented.
MR. CANGELOSI:
That's correct.
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MR. REINE:
My point is the rules limit the authority of the Board. That's what they do. If you delete the three-year language, which that rule took away the authority of the Board to do a package past three years. That's why we're looking at a rule change;

correct?

MR. BROWN:

We're making a rule change, but keep in mind, you've got two things going. We had to put that on us because was we took a set of funds that were deemed necessary because we had no funds. We took SSBCI funds and we gave them a three-year guarantee. We needed to turn this money. We needed a 10-to-1 leverage. That's what we gave them, and to do so, we needed to have a guarantee within that range to flip it within the life of this program. So what we're asking is to remove that because it's bumping against --

MR. REINE:

I don't have a problem with removing it, and we're not going to do anything, no matter what the rules say, to violate what the federal government says you can do with the money they give you. It doesn't matter what the rules demand. You've got a contract with the federal government, you're going to go through

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your appointed duty the requirements of the federal government. You're telling me that these are not the requirements of the federal government, that these are your suggestion of rules, and these rules limit the authority of the Board. That's my only point. You're talking about expanding this, which it does. You're moving from the three years to these other deals, but at the end of the day, if the Board chose to do something different than this, we have limited ourselves because we put it in the rules and we can't violate the rules, so what we've done is taken away our own authority to consider projects. If the Board chooses to do that, I'm fine with that, but that's what we're doing.

MR. BROWN:

Mr. Reine, this is a very noble Board and it has been since I've been here, but, Mr. Reine, what happens five, six, seven years down the line if Louisiana had some of its previous problems and the Board is not so noble, what happens to the money if we don't operate within certain guidelines and policies and it becomes carte blanche to the Board.

MR. REINE:

I think the Board's got carte blanche anyway. You're going tell me if the Board votes to change these rules three years from now and they want to

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change the rules, that the department's not going to go forward with the process to change the rules if that's what the majority of the Board vote? I don't know that you can guard against the Board as appointed by the governor and created in the State statute and they have the authority to oversee these programs. If I didn't like what they're doing, I'll vote no. I'll be the only one. I'm fine with that, but you're telling me you're going to make a rule that five years from now, you want to regulate the authority of the Board when the truth is, five years from now, if the Board doesn't want to do this, they're going to go back and change the rules anyway.

MR. BROWN:

We're not suggesting that the Board is regulating themselves. We're asking you right now to regulate yourself.

MR. REINE:
So back to the point, your proposal limits the authority of the Board.
MR. ROUSSEAU:
Is there a verbiage change between rules and guidelines? I mean, personally I kind of like the guardrails and the guidelines there, but I don't want to limit our ability. Are these rules -- is it a rule, or
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is it a guideline?
MR. CANGELOSI:
It's a rule, and it has the effect of statute. It has the effect of law. When we adopt it through the code process, what we're trying to do is not limit the Board. The Board can change the rules if the Board wants to change the rules, but we have to follow the legal process. What we're trying to do is limit the staff, that we want the staff to follow some reasonable business guidelines, and all we're asking the Board to do is to give the staff a list of reasonable business guidelines. These are what we think we should follow as reasonable business guidelines, and we're asking the Board to approve that. It's an increase of the authority that we had before.
MR. REINE:
I agree with you, and it's just an argument of point. If we adopted guidelines that ask the staff not to bring forward proposals that was past these things, that would be guidelines, but what we are doing here is putting in law that these are the requirements and the Board cannot approve anything past what we put here because we've effectively made the law say that's the maximum we could do. If the Board's okay with that, I'm fine with that, but I just want to have
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an honest discussion about what we're doing. We're not making guidelines for the department to operate under. We're basically making law that says if tomorrow we wanted to do something different than this, we are bound. We can't do it. We would have to go through a process that basically would change the law by changing the rules again to even consider anything outside of these guidelines. If everybody understands that and that's what they want to do, I'm cool with it, but let's have a real conversation about what we're doing. This is basically putting in statute that this is the limitations in which the Board can act. It's not guidelines to the staff. If we want to consider guidelines to the staff, that's a whole different issue. Is that technically legally right?
MR. CANGELOSI:
You are technically legally correct, yes, sir.
MR. ROY:
Any other questions or comments to that particular point Mr. Reine is bringing up?
MR. BROUSSARD:
No, sir.
MR. ROY:
Okay. Moving on. Do we have any
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discussion about the merits of the particular recommendations, the numbers of those that are

submitted, the recommendations of changing numbers or any other matters that we might want to change regarding the program?

MR. REINE:
I guess, the changes technically do align our rules with what's accepted in the banking industry; is that what you're telling me?

MR. BROUSSARD:
Yes, sir.

MR. REINE:
Okay.

MR. ROY:
Any other questions?

MR. REINE:
No.

MR. ROY:
I have one. You brought up, as I appreciated it, the only recommended changes have to do with the term.

MR. BROUSSARD:
Yes, sir.

MR. ROY:
And as we know from the discussion and

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from the good work the staff did of comparing SBA and the guarantee program, there is still some substantial difference. The only thing we address is the term?

MR. BROUSSARD:
Yes, sir.

MR. ROY:
And that concerns me because I know that every day, as you pointed out, there are -- SBA is looked upon as our competition, and bankers every day make the determination based on which program is most favorable. So I bring that up because is it that we cannot change anything else due to the requirements of the federal program or any other requirements we may have, or are we free to change some of these other requirements?

MS. GUESS:
We're free to change it. Under the LEDC side of comparison that was compared, that has basically been what has, I hate to say, always been there. I think that it may have been during your tenure on the Board where we made an attempt to look at the collateral structure to move away from the 1-to-1 collateral and those sorts of things or the equity indication.

MR. ROY:
Let me ask specifically, since it

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doesn't sound like we have any handcuffs on us, Rick mentioned earlier the fact that the guarantee declines 33 percent over the life of the...

MR. BROUSSARD:
Revolving line, yes, sir.

MR. ROY:
Right. And that the SBA program does not do that?

MR. BROUSSARD:
The level of guarantee.

MR. ROY:
I know for a fact that that is one reason bankers do not use our program compared to the

SBA program.
MR. BROUSSARD:
And that's why the language you see, A.J., we removed that decline. It's no longer a part at it. Bottom line.
MR. ROY:
Oh, you did? I didn't realize that.
MR. REINE:
Mr. Chairman, in the future, if we're going to look at these things, I'll ask them to include the deleted language as well.
MR. ROY:
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That would be helpful.
MR. REINE:
I'm not a banker and I don't do this every day. I'm just trying to make a clear decision.
MR. ROY:
That would be helpful. It's always good to know what we're deleting. You're right.
MR. CANGELOSI:
If I may interject another bit of information, the declining in the balance of the guarantee over a three-year period was not actually part of the previous rules. That was just a policy decision that the Board had made years ago and was continuing to be followed. We actually don't have that as a part of the rules. It's never been a part of the rules, but it has been a part of our guarantee agreement.
MR. ROY:
Okay.
MR. CANGELOSI:
We can start taking that out immediately because our rules don't require it.
MR. ROY:
Okay. Going back to Mr. Reine's discussion. I'm not sure what should be in the rule or what should be policy --
0080
MR. CANGELOSI:
Well, it should have been in the rules all of this time, but it was overlooked. It was in the guarantee and nobody was really objecting to it for a good period of time. You have made several comments about it to your staff over the years, and we have decided in connection with this amendment, we're going to start removing that from the guarantee as well.
MR. ROY:
And, you know, my comments have steeped in the fact that I'm a banker and I see these things and I don't think -- staff can back me up if I'm wrong, correct me if I'm wrong, but I think we lose a lot of deals. I see head shaking out there. We lose a whole bunch of deals because our program in that respect is not comparable to SBA.
MR. CANGELOSI:
So that's the two things we're correcting right now. We've giving longer terms and we're eliminating the decline in the guarantee.
MR. REINE:
Mr. Chairman, I've got another question.
MR. ROY:
Yes, sir.

MR. REINE:
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It really ain't about this deal, but I don't understand why this couldn't be policy if it's going to be rules, but if it's rules it's fine, I just -- don't tell me it's a duck and then tell me it's a chicken. Now you're telling me that the Board approved the policy and then changed the policy without the approval of the Board?
MR. CANGELOSI:
No, sir. I'm sorry. You misunderstood me. The policy was created by the Board many years ago and it was put into the agreement, but there was nothing in the rules that prohibited that in the agreement, so we went along -- I wasn't here at the time, but the staff went along with that policy change. Ever since I've been here, that's been a part of the guarantee agreement.
MR. REINE:
My deal is it's a matter of just the way we do business. If the Board mandated a policy and we're going to change it, shouldn't the Board vote on changing the policy? Which I'm fine with changing the policy --
MR. CANGELOSI:
Yes, sir. The Board should vote on changing the policy. We're doing that right now.
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MR. REINE:
That's not what I heard you say. The policy about the 33 percent, I understood you to say was a policy mandated by the Board.
MR. CANGELOSI:
Yes.
MR. REINE:
Then I heard you say that the staff changed the policy.
MR. CANGELOSI:
No, the staff didn't change the policy. We still have that in our agreement. If it's the Board's desire to change our policy, we can do that right now.
MR. REINE:
That's what I want to hear. So that would be a separate vote than this?
MR. CANGELOSI:
We can do it that way, yes, sir. It's just not been included in the rule change because it never was in the rules.
MR. ROY:
But you're recommending it should be in the rules?
MR. CANGELOSI:
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No, sir. It just never was.
MR. REINE:
If we need to change the policy, we need a vote to change the policy.
MR. ROY:
So staff is recommending that we change the term and that we do not graduate the guarantee on the revolving line.
MR. BROUSSARD:

Level.

MR. ROY:

It would be level.
What about the fees?

MR. BROUSSARD:

SBA does charge fees. We don't. We have the capacity to charge fees on guarantees between two and four percent, and we've elected under the SSBCI-funded program that we would not charge fees. They work better with the deals, and that makes us more competitive. You and I have talked about this before, if we're not charging application fees for guarantees and the SBA is and they are expensive, we've got competitive terms. We'll have people standing outside the door. It becomes more competitive. You'll see some improvements in the deals. We'll perform better in

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terms of the SSBCI criteria.

MR. CANGELOSI:

Again, if I may interject something with regard to fees, the rule now states what the fees will be, but it's in the discretion of the Board to waive the that fee, and after we adopted those rules, the Board waived the fees that are provided in the rules. So they are within the rules, but it's within the rules for the Board to have the capacity to waive those fees, and the Board did waive those fees.

MR. ROY:

And historically we've been waiving the fees on all of the deals?

MR. BROUSSARD:

Under SSBCI, yes.
Previously we charged fees.

MR. ROY:

And perhaps we need to address that in policy if you want to do that, if the Board wants to do that. Perhaps not, but I'm wondering if we're leaving too much on the table. You know, is SBA making probably decent revenue off of these?

MR. BROUSSARD:

A lot of revenue off of the fees, yes.

MR. ROY:

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And it's always going to be the less of two evils. I don't know how we compare across the board. If we were to make the changes that the staff is talking about and we did not -- we continued not to charge a fee or collect a fee, would we be giving up too much?

MR. BROUSSARD:

Well, you can start charging fees. The cessation of the SSBCI term is 2016 or '17. You can begin to charge a fee when those moneys runs out on the those guarantees, or you can do it now.

MR. REINE:

Under the current rules, which I assume are a separate section, you said that the rules allow us to waive the fees?

MR. CANGELOSI:

Yes, sir.

MR. REINE:

Is that a all-or-nothing proposal? Do we either have to have a certain fee or waive them all?

We can't waive a partial fee?
MR. CANGELOSI:
Yes, sir. That's correct.
MR. REINE:
So that would be a separate issue of the
0086
rule change if we wanted to be able to reduce the fees, that's not allowed under the current rules?
MR. CANGELOSI:
Unfortunately, I didn't anticipate this, so I don't have to old rules in front of me. I don't think it says "up to" a certain amount. I think it says will be a certain amount.
MR. BROUSSARD:
It says -- if I may? If I remember, it says we will charge a two percent guarantee fee on the guaranteed amount. That's a one time charge. If the company that's applying for the loan guarantee through the bank is deficient in the equity they're injecting, we require 15 or 20 percent depending on the life cycle of the company. If they're deficient in that cash we put in the company, we can up the guarantee to up to four percent.
MR. REINE:
And then the rules say that those are the fees and we can waive them?
MR. CANGELOSI:
Yes, sir.
MR. BROUSSARD:
The rules do, yes, sir.
MR. REINE:
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But it has no provision to reduce them?
MR. CANGELOSI:
I don't think so.
MR. REINE:
To address the issue, we would need to put on the agenda to look at a rule change to would allow us to reduce them or waive them?
MR. CANGELOSI:
Right. That's correct.
MR. REINE:
That would be a separate issue for a later date?
MR. ROY:
Perhaps, or we could address it now.
MR. REINE:
No. To change the rules, you have to go through a process and have a public meeting and all of that.
MR. ROY:
Right. I thought you were talking about policy.
MR. REINE:
He's telling me the fees are in the rules.
MR. CANGELOSI:
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Yes. The amount of the fee is in the rules, but it can be waived. It doesn't say that they can be reduced.
MR. REINE:
If we wanted to add language to say it

can be reduced, we have to go through the rule changing process, which we have to promulgate the rules and have them published here and all of that and then bring it back to us.
MS. GUESS:
That's where we are now, though.
MR. REINE:
No. We're talking about something separate, though. That's not in this.
MS. GUESS:
Right.
MR. REINE:
If we demand this proposal, it has to go back to the public hearing before we can do that?
MR. CANGELOSI:
It hasn't gone through that process yet. The Board has to approve this before it goes to that process.
MR. REINE:
So you're saying that change could be
0089
made now?
MR. CANGELOSI:
So if we want to do that now, we can do that now.
MR. REINE:
This says a public meeting was held January -- no. It will be held January 26th. Okay.
MR. ROY:
So if the backup staff can give us a little more insight into the overall recommendations regarding fees and the entire thing, I just want to make -- in my mind, again, you know, the marketplace always seeks the cheapest deal all things considered, so if we're going to be synonymous with the SBA guarantee, we're going to be basically identical.
MR. BROUSSARD:
A.J., you have the fees of both sides in that memorandum.
MR. ROY:
Would we want to eliminate all of the fees -- would we want to continue to eliminate all of the fees, which we're currently doing now, or should we address that issue?
MR. BROWN:
Can I approach?
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MR. ROY:
Yes.
MR. BROWN:
We always had the discretion -- we charge up to a one-percent fee currently. We always had the discretion to charge up to that fee on a case-by-case basis, so it would be palatable to be able to do so continually. We don't have to charge a fee, but we can charge a fee up to a certain percentage. We should put that in the rules on a case-by-case basis. And the reason why I say case-by-case basis, sometimes we have the quintessential small business owner, we don't want to stick them with a fee because, you know, they're in this phase where they need all of the capital they can get ahold of. These fees, you know, that are ultimately charged are passed on to the borrower, so we

want the Board to have the discretion of charging a fee with us putting a recommendation in doing so on a case-by-case basis or not doing so on a case-by-case basis. So it would be much better if we say we can charge a fee on a case-by-case basis or not to do so, giving us the discretion to do it, you know, with the recommendation with you guys' approval like we have right now currently taking place.

MR. ROY:

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Anyone else?

MR. BROUSSARD:

Yeah. A.J., we have that capacity right now.

MR. BROWN:

That's what I'm saying.

MR. CANGELOSI:

Except we cannot reduce the fee because that would have to be in the rule.

MR. BROUSSARD:

Yes, because of the requirement to increase the fee. There's no policy to reduce.

MR. REINE:

I'd like to make an amendment to the rule change, and I'd like to amend it where we include the language that says we can charge a fee or waive the fee, to include language that we can reduce the fee.

MR. CANGELOSI:

Yes, sir.

MR. REINE:

And we can amend this rule change to do that?

MR. CANGELOSI:

Yes, sir.

MR. REINE:

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Include it as part of this rule change, so that's my amendment to this document.

MR. ROY:

Does your motion include the recommendations of staff on the proposed language before us?

MR. REINE:

All I'm doing is amending this language before us to include that in this document, and we vote on this document later. That's just an amendment to this.

MR. ROY:

As well as the recommended changes to the rule that staff is proposing in blue; is that part of your motion?

MR. REINE:

No. That we have the force in consideration of these rule changes. I'm amending these rules to include more language which allows us to either charge a fee, waive a fee or reduce a fee, and it will just become part of this document that we'll vote on at a later time.

MS. GUESS:

Mr. Chairman, I'd like to give staff more guidance because normally we're negotiating with

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bankers before the deals come here, so we need to be able to determine or have some guidance as to what's going to trigger us to charge a fee and to what percent, either it's going to be determined by the loan amount, by risk, because we're in negotiations with bankers, for example. All of the loans that you've seen thus far probably we've charged were within the 75-percent guarantee, but there also have been days in the past where we get a credit and we've got a very stout borrower at times and we feel that a 75-percent guarantee is not warranted. We may get a guarantee -- we can go up to a 75-percent guarantee. We can go anywhere from 75 down, so the negotiation of the interest rate -- I'm sorry -- the fee percentage along with the guarantee amount needs to be a policy given to staff as we are negotiating with the bankers.

MR. ROY:

And that mirrors the realities of the marketplace today in the commercial banking world, which makes sense.

Okay. So we have a motion to amend the rules to allow us to charge a fee, not charge a fee or to reduce fee.

MR. CANGELOSI:

If I may interject something. I'm sorry

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I keep interrupting, but she has her computer with her, so we were able to locate the existing rules, and the existing rules say that the fee, "LEDC will charge a guarantee fee not to exceed the maximum amount of two percent with regard to SSBCI loans." And in the state loan program, it says, "not to exceed four percent."

So with the Board policy, we can reduce the fee at any time. It goes further to say that the fees can be waived.

MR. ROY:

Okay.

MR. CANGELOSI:

Up to a maximum of four percent or up to a maximum of two percent, but the fees can be waived.

MR. REINE:

All I'm proposing is to include the language in the rules that says we can reduce it.

MR. CANGELOSI:

Okay. I can do that. We can add that.

MR. REINE:

I'm worried that the rules don't really match the policy. If the rule says you charge four percent or you waive it, then that rule change is simply going to allow us to have the discretion that we can do two instead of four.

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MS. VILLA:

It says "not to exceed".

MR. CANGELOSI:

Waive or reduce the fee. Yes, sir, we can do that.

MR. ROY:

So is it your opinion that the motion is necessary to address the desired change in the rule?

MR. CANGELOSI:

Not if we still get the limit of four and two. If we're going to keep the limit of four and two, it will go up to four or up to two.

MS. VILLA:
We don't have to reduce it.
MR. ROY:
Or eliminate or reduce it.
MR. REINE:
So the rules say "up to." Sounds like we can do it already.
MR. ROY:
Okay. Given that --
MR. REINE:
I withdraw the motion.
MR. ROY:
Withdraw the motion.

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Okay. Any other speary discussion? Anyone else?
MR. SIMPSON:
I just wondered -- I'm not in banking, so having the time constraints, why do we need to limit ourselves as a Board when y'all would just be governed by what the legal requirements are for the loans as the staff? If something's outrageous, it would have been governed before it gets to us.
MR. BROWN:
At some point, you want to wean -- this program does want to wean the banker off of the leverage that we offer. Okay? We went out from that umbrella because we don't want nothing to be perpetual, you know, go the life of the loan for the most part. You know, at some point with this credit with the borrower and the banker, there's a perfect marriage, and at that point, the council needs to get out. We're the council. Ideally, that's why we do it.
MR. REINE:
This is my whole point: Couldn't you put that in each individual package?
MR. BROWN:
We do it on a case-by-case basis.
MR. REINE:

0097

Why do we do a rule if we're going to vote on them anyway?
MR. BROWN:
We put rules in place because we don't want to give away the farm. We shouldn't give away the farm. Okay? There will be a deal -- I'll bet my low civil service salary there will be a deal down the line where somebody's going to want to kitchen sink and some because they're a friend of such and such.
MR. REINE:
And I guarantee you --
MR. BROWN:
And this will make it difficult with those for the Board to do, so -- we're all in Louisiana, we know the history. This administration has done a wonderful job of cleaning up a lot of that, and that's -- we put rules in place for that reason.
MR. MESSER:
Mr. Chairman, I think at this stage, I think it's clear on where the Board would like to be. I think the Board would like not to be handcuffed. I think the belief is that ultimately the Board is going to be able to approve and be able to ferre it out those

things. I think at this stage, it might be difficult to -- while I appreciate staff's concern, I think it's
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exactly the appropriate concern, I think it might be difficult to try to solve our problem that's not yet right. So my recommendations at this stage would be to allow for the discretion of the Board to make the recommendations that Mr. Cangelosi suggested and that we sort of move on to the next item. I'm just getting concerned that we might be sort of chasing ourselves around this issue because I think the Board's intent has been fairly clear. If I'm incorrect about that, please just excuse me, but I think the Board's perspective is clear, let's not put handcuffs on it, then at a subsequent occasion, based upon Mr. Cangelosi's recommendation, we take further action. We can do that down the road.

Does that make sense?

MR. REINE:

Actually, there's a problem that we need to make a rule change to delete the language that we need to delete which limits it to the three years. The conversation has been about the added language, but y'all do need us to recommend deleting the language, and that would require an action, because without that, the part that we don't need limits us to three years.

MR. CANGELOSI:

That's correct.
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MR. REINE:

And we do need to take some action to delete that language, which I think everybody agrees on. The conversation has been about whether we need to add the other stuff back in, so if we don't take action, then we've really handcuffed ourselves.

MR. ROY:

I'll entertain a motion to approve the changes to the rules as presented by staff. Would somebody like to make that motion?

MR. ANDRE:

I'll move.

MR. ROY:

Motion to move.

MS. THAM:

I'll second that.

MR. REINE:

I'll make a motion that we approve the deleted language only and not the language that's been added, which would mean that we would get rid of the limitation, but we wouldn't put the new limitations on it.

MS. THAM:

Do you want to substitute that with policy for the staff? Because they've got to have some
0100
guidelines that say we're required to follow this --

MR. REINE:

I would be fine doing these with policy and not in the rules, but if the majority of the Board is fine, if we need a second, we'll vote on the first one.

MR. ROY:

All right. There's a substitute motion

to remove the deleted language, but not add the language that staff is recommending.
MR. REINE:
Correct. Look at that as a policy later.
MR. ROY:
And we'll take that up first, as I recall. Mr. Cangelosi, correct me if I'm wrong on my voting procedure.
MR. CANGELOSI:
You're correct.
MR. ROY:
Is there a second on that motion?
(No response.)
MR. ROY:
Hearing none, the motion dies. We will take up the original motion which is to change the
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language as recommended by staff which is before us.
We have a motion and a second.
Any discussion?
(No response.)
MR. ROY:
Just one final question just before we vote, is there any other language that -- I'm all about us being as competitive as we can be. I want us to prosper. I want us to do great things under this program. Is there any other language that we might want to entertain that would make us more competitive or perhaps give us a competitive advantage?
MR. BROUSSARD:
Yes, sir. We can borrow from the SBA's language. I have it here if you would like to hear it. It says, "Maximum loan maturities have been established, 25 years for real estate; up to 10 years for equipment, depending on the use of the life of new equipment; and generally seven years for working capital." That's revolving, revolving lines of credit.
MR. ROY:
Do we have that kind of flexibility right now under the rule?
MR. CANGELOSI:
No, sir.
0102
MR. ROY:
So we would need that kind of language to be flexible --
MR. CANGELOSI:
If you would like to do it that way, we can.
MR. ROY:
Well, I don't want to open up Pandora's Box with discussion --
MR. REINE:
Let me understand.
MR. ROY:
Sure.
MR. REINE:
The language he just read, we would not be able to do under the rules if we adopt this?
MR. CANGELOSI:
That's correct.
MR. REINE:

You might want to wait and look at this other language because you're passing rules that say we can't do that.

MS. THAM:

Those longer terms, was that what the federal intention was to try and turn it over regularly

0103

or are they --

MR. BROUSSARD:

The federal turnover was not an issue anymore. It was initially 15 percent.

MS. GUESS:

If there is any pushback or any concern from the Feds of any change that we make as a Board to effectively enhance the program, they may require us to do a modification to our application. That's the only thing that would happen, and they're trying to make the determination right now. We've given Treasury these three items for their review and say this what we are presenting to our Board, then we may come out of that meeting with these in tact to change our rules.

MR. ROY:

Well, perhaps, my question is not timely, but what I would ask is that the staff -- you mentioned that, and I don't want us to make a knee-jerk reaction with any proposed rule, but if you can study that, give that some thought some more, perhaps we can address that at a later meeting should the Board feel that it's necessary. But I just bring the question up while we're thinking about those things because I think that we ultimately want to be as competitive as we can be.

0104

MR. REINE:

Mr. Chairman, may I suggest to you that if we vote on this now, then it goes to a public hearing and then it has to go through the legislative committee -- a rule change doesn't go to the legislature?

MR. CANGELOSI:

We sent copies of it to them. They don't have to have a meeting on it unless they desire to have a meeting.

MR. REINE:

Okay. But under the law, they have a joint meeting on whatever committee has jurisdiction. If they don't have the committee within 90 days, then you can put the rule into effect?

MR. CANGELOSI:

Within 30 days.

MR. REINE:

So if this is not the language you're sure you want, you would have to go through the whole process again and change it?

MR. CANGELOSI:

Yes, sir.

MR. REINE:

I suggest you might want to wait and get

0105

the language you want and only do this one time. If the legislature does have the authority, you have to notify the joint committee for a rule change, they're supposed to call a committee hearing, they review the rule changes and vote on it, and the only way out is if they choose not to take action, you've got to wait 90 days, then you can put the rule into effect absent legislation. If rule changes are a lengthy process, if you want to consider other language, I suggest you might want to hold off on this and let's only go through that process one time.

MR. ROY:
I think your point is valid. Let's take --

MR. BROUSSARD:
I would like to have a rule change today because we have deals pending and we're not sure what to tell them. If we have favorable terms next time, you know, subsequently we might have some issues with people we're negotiating with right now. This need to be decided as soon as possible so we can function.

MR. ROY:
Let's say we want to make an additional rule change and let's say we make this one now, do we see that as hindering us in any way with whoever it is,
0106
with us, with the legislature, anyone else?

MR. CANGELOSI:
It will duplicate the process, yes. We would have two different pending rules.

MR. ROY:
Is that a hindrance?

MR. CANGELOSI:
Well, it would complicate the process, but we can do it that way.

MR. REINE:
I mean, if these are the conditions, we might need six months from now another rule change and go through the process. I just wanted you to understand it. It's not that we're going to vote and it's done. It's is a process that this goes through.

MR. ROY:
Good point. Sounds like we need it now.

MR. ROUSSEAU:
Mr. Chairman, can I clarify? I just want to ask --

MR. ROY:
Absolutely.

MR. ROUSSEAU:
I'm looking at Page 6 on Section 7 and the thing that you're changing, Section A is --
0107

MR. ROY:
I think if you go to 8 -- well, that's the actual rule. The language is appropriated in the rule.

MR. ROUSSEAU:
All right. Okay.
Well, then under A, five years. SBA is seven, you said?

MR. BROUSSARD:
Yes, sir, it's up to seven.

MR. ROUSSEAU:
So five and seven. On B, it's seven years, but SBA can do 10?

MR. BROUSSARD:
Up to 10, yes, sir.

MR. ROUSSEAU:
And C is 15, but has the option to go up to 25?
MR. BROUSSARD:
Yes, sir. That's boilerplate. I copied and pasted that language.
MR. ROUSSEAU:
That's fine. I just wanted to know where we are and where does that fall exactly. So really, would it make that big of a difference? I guess
0108
that's my question. You're the staff and you would know. I rely on you guys.
MR. BROUSSARD:
As A.J. said earlier, to be competitive with the SBA. We thought we were more conservative. As a staff, we sat around a few weeks looking at these and this is what we came up with. We're very conservative if we're going for broke. I have to say -- personally I have to say we need to model the terms of SBA if we want to compete.
MR. ROUSSEAU:
And you're recommending that?
MR. BROUSSARD:
I would --
MR. SIMPSON:
Why wouldn't we mirror that?
MR. ROY:
It's certainly worthy of discussion considering your point is a good one.
MS. GUESS:
That's what I was about to say is that probably the only reservation about going there is, you know, the federal dollars end in 2016. The program ends in 2017, and if we look at the second one when we get to the Secretary Treasurer's Report, we'll see our
0109
allocation that going to our loan guarantee or our financing programs has increased over the years. And we're talking about extending terms 20 years, 25 years, then we're looking back at longer periods of time for those dollars to come back to us, and I would say that would be the only apprehension that I would have of extending it to a 20 or a 25-year term.
MR. REINE:
But on the individual deals, we have the authority to do a lesser time period. All we're doing it limiting the maximum time period.
MS. GUESS:
Okay.
MR. REINE:
Am I correct?
MR. BROUSSARD:
Yes, that's correct.
MS. VILLA:
Mr. Chairman, that's exactly what I am going to comment on, is that the proposed rule changes and what Rick suggested as the amended, it's going to say "May extend up to." That doesn't mean we have to go that long of a time period, but it may extend up to. That way, it gives us the flexibility so that when we go back and look at how the term is going to be, if it's
0110

not close to that 10-to-1, then we may not choose to go that long of a term because we still have to do the analysis to say, "Okay, is this going to be allowed by Treasury for us to go this long?" So we need to have the flexibility within the rule to go up to. It doesn't hinder us from doing that because we can still have the discretion not to go that long.

MS. THAM:

May I ask what's the approval process for the extension? What's the approval process for the extension? Who has to approve the extension?

MS. VILLA:

We have verbal communications going on with Treasury right now, and basically what we have to do is look at it. If we looked at the numbers, if we extend up to five years, all of the different loan categories for those extensions, we've looked at that and that's what Brenda indicated earlier that that was about a 9.94 I think was the ratio, if I'm not mistaken, so we would look and see what the ratio would be if we did go all of the way up to, but that's taking into consideration that every single loan and how it's probed out would go up to those terms, so we'd have to take some assumptions into play there when we're doing the analysis.

0111

MR. BROUSSARD:

That's right. Again, we have an asset that has a five-year life, and they're looking for a seven-year term, it's not going to happen. The term would mirror the life of the asset.

MS. VILLA:

But at least by having that language that says "May extend up to," we have the flexibility, we don't have to come back and ask for any rule changes, and when we do the calculations and make the recommendation to Treasury, the rules have already been promulgated into the extent of the loan return.

MR. CANGELOSI:

And we can do that now if you'd like.

MR. REINE:

Mr. Chairman, if you would withdraw the motion to approve, I would like to make an amendment to make these numbers match. If you would entertain a motion to this --

MR. ROY:

We have a motion and a second here, so it would be up to them.

MR. ANDRE:

I withdraw my motion.

MR. ROY:

0112

Motion withdrawn.

MR. REINE:

I would like to offer an amendment in A we change the number from 5 to 7, B we change the number from 7 to 10 and in C we change the number from 15 to 25. It's my understanding that those numbers would match the federal requirement; correct?

MR. BROUSSARD:

Yes, sir.

MR. ROY:

So that's "up to". The language would

say something like "up to"; right.
MR. REINE:
It says "Shall not exceed".
MR. BROUSSARD:
It says, "Maximum loan maturities as established: 25 years for real estate, up to 10 years from equipment, depending on useful life for the equipment depreciation, and generally up to seven years for working capital." That's exact verbiage.
MR. ROY:
Is that your motion?
MR. REINE:
My motion is simply to change the numbers in the existing language we have, and in each
0113
one of those, it says "Shall not exceed".
MR. ROY:
Okay.
MR. REINE:
"Shall not exceed five years," say seven; where it says "Shall not exceed seven years," say 10; and where it says, "Shall not exceed 15 years," say, "Shall not exceed 25."
MR. ROY:
Very good.
MS. THAM:
And add to the number of years you can extend to make it match.
MR. BROUSSARD:
That's what I was going to ask, so the extension would be out the window. We're talking about the maximum only.
MR. CANGELOSI:
In other words, we would not want an initial term shorter than that. We just say to begin with, "The guarantee term may extend up to seven years or not to exceed seven years." Each paragraph would be shortened by that terminology. Otherwise, you've got an initial guarantee and then an extension of the guarantee. So what I think you're suggesting is that
0114
the initial guarantee be authorized not to exceed seven years, the guarantee authorized not to exceed 10 years, and the guarantee authorized not to exceed 25 year.
MR. ROY:
Is that your motion?
MR. REINE:
That's my motion.
MR. ROY:
That's his motion.
Do we have a second?
MR. ROUSSEAU:
Second.
MR. ROY:
Second by Mr. Rousseau.
Any discussion on that motion?
(No response.)
MR. ROY:
I think we've got something done here. That was a good process.
MR. REINE:
Now we need a motion to adopt as amended. We just amended it. We need to adopt it now.

MR. SIMPSON:
So moved.
MR. MESSER:
0115
Second.
MR. ROY:
Motion and a second.
Any discussion?
(No response.)
MR. ROY:
All in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
MR. CANGELOSI:
I'll prepare a redraft of that and put it in the minutes so we have it to reviewed.
MR. REINE:
We've got one more of those, huh?
MR. CANGELOSI:
Yes. It won't be as complicated, I don't think.
MS. VILLA:
Did we need to have a motion --
MR. CANGELOSI:
I believe so.
0116
MR. ROY:
We did actually vote on a motion to change the rule, as I recall, and Mr. Rousseau seconded that, so any discussion on that?
(No response.)
MR. ROY:
Hearing none, all in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection. Good work. I think we did good work.
The next order of business, Ms. Guess.
MS. GUESS:
Oh, okay.
MR. CANGELOSI:
The EDAP program is next, if I may. Let me explain the EDAP program from the beginning. It was started back in the late '80s, 1980s, about the same time as the other program we discussed. Originally the EDAP program, it's a program for Economic Development Awards, EDAP, E-D-A-P, Economic Development Award Program. Originally the program contemplated grants,
0117
and we would give grants to public entities only with the idea that the funds would be used for enhancement of public infrastructure, perhaps a road, building a road to a property that would have to be developed into an industry. It was used as an incentive to encourage businesses to either locate in this state or to encourage businesses that were already in this state to

expand, and the reason for that, of course, is to increase jobs, to provide jobs for the employees located in the State of Louisiana. Over the years, during the last administration, we sort of changed the EDAP program to an EDLOP program where we converted the grants into loans and we went through a loan process requiring annual payments, but gave them credits on the loans based on the number of employees or the total amount of new employee payroll. We've run into complications with that process during the last few years, and management staff has suggested that we go back to the EDAP program, but at the same time, don't discontinue the opportunity to do a loan if we need to do a loan in a given case.

So what we want to do at this point is rescind the EDLOP program, but take the provisions of the EDLOP program and mix them into the provisions of the EDAP program. The EDAP program will now still be the Economic Development Award Program, but the award

0118

can either be a loan or a grant. We're going to lean primarily on the grant process, but the EDAP program previously was limited to sponsored programs where there was a public entity sponsoring the request because it was public property that was going to be improved. The EDLOP program was for privately-owned property where there was no public sponsor. So in the new rules we're now using that terminology sponsored program or sponsored project or an unsponsored project. So that's a slight change in the rules, but the reason for the rules is still the same, to give incentive to out-of-town or out-of-state businesses to locate in this state or businesses that are already here to expend in order to create jobs for the citizens of the State.

Now, instead of just having annual payments based on like a promissory note, we're going to have repayments based on nonperformance. In other words, if the EDAP awardee, and the awardee being a public entity and a business or just a business if there's no sponsor in the case of private property, the repayment would be made in the event of nonperformance, nonperformance of creation of jobs or nonperformance in creating the amount of the payroll that was contemplated. We do an economic impact analysis on the amount of the jobs and the amount of the payroll, and

0119

that's the way we get our payback over the years is through. The payroll creates income taxes, and also the construction creates sales taxes. Those sales taxes that have paid for the materials used in the construction and the income taxes on the payroll that is made is the way the State get the money back over a period of time, and however long it takes for the State to get their money back is how long we make the term of the contract and the company would be required to maintain that employment at that payroll level for that period of time.

So in the new rules, again in the blue print, shows the new language. The old language is in the black print, and the gran emphasizing the grand award, but we're maintaining the loan award in the event we want to continue process in a particular --

MR. ROY:

It's under Tab 9 for everyone's

edification.
MR. CANGELOSI:
It's 9.
MR. ROY:
Am I wrong?
MR. CANGELOSI:
It's 9.
0120
We used to give simply job credits. Now we want to -- and we have been giving job credits combined with payroll credits. Now we want to call them performance credits, and they can be either job credits, payroll credits or a combination of both. And that's the reason for that definition.
All of the other changes primarily are just wording improvements to make it more understandable. The Section 105 on Page 5 of these rules, Paragraph 10 at the bottom is a new-inserted paragraph. That paragraph says that in the event the awardee decides to sell the property during the period of our award agreement, they have to give us the money that they received from the sale of the property insofar as the debt is still owed. If we gave them $500,000 and they still owe us or they didn't receive credit for as much as 250,000 and they got 300,000 for the sale, then they five us the 250,000 to pay us back, and the reason for that is we do these as incentives assuming that the awardee needs the funds, but if the awardee is getting the funds back, there's no reason whey the State can't get the return of those loans and use them again in another project.
MR. ROY:
Are you going to take a mortgage on the
0121
property?
MR. CANGELOSI:
We do from time to time take a mortgage on the property. We have the ability to do that in these rules. We've always done that. Sometimes they can't give us a mortgage because we're only lending them maybe $100,000 for a project that's costing 650,000 and they're getting a $600,000 loan from the bank or another entity, that bank needs to get the first mortgage, so we can't accept a second mortgage, so then we have to get some other kind of collateral as security in our loan. Sometimes it's guarantees.
MR. ROY:
In that scenario, you're saying we couldn't accept a second because there's no equity; is that basically why?
MR. CANGELOSI:
That's basically why. In the event of foreclosure, we'd have to pay off the first mortgage and protect ourself.
MR. ROY:
Could you take a second in the event that they sell that and they had equity?
MR. CANGELOSI:
Yes, sir, we can do that, but we don't
0122
usually do that. We have done it, as a matter of fact, in a case that I do recall. We took a second mortgage, but we also had the guarantee of the principles involved

in the company and we didn't have to enforce the second mortgage because they had their guarantees. We were actually paid back in that case.

Most of the other provisions are all in black print, and that's all wording that was in the original EDAP program or was in the original EDLOP program and just moved it into one particular program. We made it shorter by doing that by about 10 pages, so we eliminated a lot of duplications in paragraphs because of the movement into the other program. So hopefully this will be a more easier to understand program and a quicker process.

MR. ROY:
Any questions or comments?

MR. REINE:
Yes, sir, and I hate to drag the meeting on, but this is serious stuff. Is there any language in here that was deleted or all of this is added language?

MR. CANGELOSI:
This is added language.

MR. REINE:
So I ain't going to worry about

0123

deleting.

So you're going from a loan to a grant, but you are --

MR. CANGELOSI:
We still have the ability to do a loan, and we prefer to do a loan in any given case.

MR. REINE:
I'm more worried about the drawbacks, so whether it's a loan or it's a grant, there are certain promises made about certain payrolls and certain number of jobs, and we're going to continue to hold them to that?

MS. CANGELOSI:
Yes, sir, we are.

MR. REINE:
I don't understand the difference between I'm going to make you a loan and I'm going to credit you payment for making the promises, which means you end up getting a grant, but if I give you a gran, how do I get the money back?

MR. CANGELOSI:
Same way. It's a penalty for nonperformance. It's a clawback. In the event you don't perform, each year you would have clawback for repayment.

0124

MR. REINE:
Are these are stackable with other payments, such as Quality Jobs and things like that?

MR. CANGELOSI:
Yes. This is in addition to the Quality Jobs Program.

MR. REINE:
But some require that you can't get another one. This has no requirement --

MR. CANGELOSI:
This does say that if you're in default with another contract in the State, you cannot receive -- you are no longer qualified to receive this kind of a grant. It's always said that.

MR. REINE:
But you're going to get rebate on the Quality Jobs and you're going to get a grant based on the same employment?
MR. CANGELOSI:
Yes.
MR. REINE:
And payroll?
In the Site Readiness, that was the pre-qualification of properties that we would have a list for sale?
0125
MR. CANGELOSI:
Yes. We're not amending these rules.
MR. REINE:
We still don't require that when you sell that property, you pay back the cost for recertification?
MR. CANGELOSI:
No, sir, we don't require that.
MR. REINE:
We don't create like a revolving fund to --
MR. CANGELOSI:
No, sir.
MR. REINE:
But we will still retain the requirement that the number of people in the payroll will have to be met that was promised, whether it's a grant or it's a loan?
MR. CANGELOSI:
That's correct.
MR. REINE:
Okay.
MR. ROY:
Any other questions or comments?
(No response.)
0126
MR. ROY:
Hearing none, what's the pleasure of the Board?
MR. ANDRE:
So moved.
MR. ROY:
Motion for approval as presented.
MR. MESSER:
Second.
MR. ROY:
Second.
Any other discussion?
(No response.)
MR. ROY:
Hearing none, all in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
All right. Next order of business, Louisiana Seed Capital Program.
MS. GUESS:
This one is the shortest one. We're

0127

moving along.

Under the Seed Capital Program, which existed prior to us receiving SSBCI dollars, but it was also a dormant program. Once we brought our application to the Feds for the allocation of our $13.1-million, we chose to put $8-million into the Loan Guarantee Program, and the $5.1-million into the Venture Capital Program -- the Seed Capital Program. Based on the amount of dollars allocated into that program and based on the number of venture projects that had been identified at that time, the maximum that we felt we could do was going to be $1-million per fund. To date, we have approved -- the Board has approved $3-million into our Venture Capital Seed Program. You see the one we had earlier with LA Fund II has been withdrawn, so that money goes back into it. However, we're seeing more activity from Venture funds for seed and early-stage dollars, and so all we're asking with this change, it has to be changed in the rules, is that the Under Tab 10, under the Seed Capital Program and the blue language, it says the total dollar amount shall not exceed $2-million. Currently, we're only putting a million dollars into the seed fund.

Now, with the remaining $2.1-million that we have left, it will be a first-come, first-served

0128

basis. If there are additional Venture funds that come to us or it may be funds that we've already invested in, they will be able to come back, but they will still have to abide by the same stipulations with the raising of the appropriate dollars in order to receive that increase.

MR. ROY:

Any questions or comments?

MS. VILLA:

Mr. Chairman, I'd like to comment on this. This has been approved by the Treasury.

MS. GUESS:

Yes. I'm sorry. Minor details.

In fact, just yesterday we submitted the request to Treasury and they gave written approval for us to make this modification to our allocation agreement and our application. They considered this not to be a material change in our application.

MR. ROY:

All right. Any other questions or comments?

(No response.)

MR. ROY:

Hearing none, what is the pleasure of the Board?

0129

MR. MESSER:

I motion for approval.

MR. ROUSSEAU:

Second.

MR. ROY:

Motion for approval as presented and second my Mr. Rousseau.

Any other discussion?

(No response.)

MR. ROY:

Hearing none, all in favor, "aye".

(Several members respond "aye".)

MR. ROY:

All opposed, "nay".

(No response.)

MR. ROY:

Without objection.

MR. REINE:

Mr. Chairman, before we leave that section, the conversation about a policy change, I don't remember what it was now, but -- what was it you said, that there was a policy?

MR. CANGELOSI:

Oh, we had talked about the declination, the decline of the balance owed on the guarantee

0130

one-third for each year for three years. If it's the wish of the policy -- I mean, the wish of the Board to change that policy, we can do that right now.

MR. REINE:

So what should the policy be?

MR. CANGELOSI:

No declining balance except for the payments that have been made.

MR. REINE:

And that's the current procedure in which you're operating?

MR. CANGELOSI:

We can operate in that procedure. Right now we're operating in the procedure of declining balance annually. If the borrower hasn't paid as much as one-third of the balance, then nonetheless, the guarantee will decline by one-third each year if it's a three-year loan, whereas if we want to change that policy, the balance of the guarantee will decline according to the amount of payments that have been made.

MR. REINE:

That would make sense that we wouldn't decline the balance more than they've paid off. That's the issue we're talking about?

MS. GUESS:

0131

Yes. I'm sorry. If I'm correct, we're talking about the percentage of the guarantee?

MR. CANGELOSI:

Yes.

MR. ROY:

What could be happening is that the balance in the first year does not decline by 33 percent, but our guarantee does?

MR. CANGELOSI:

That's correct.

MR. ROY:

And that's contrary to what SBA has?

MR. REINE:

So in order to formalize it, we need to offer a change to the policy to reflect that that's the policy that staff should use?

MR. CANGELOSI:

Yes, sir.

MR. REINE:

And I don't know what motion I'm making, but I'm making that motion.

MR. ROY:

I guess a motion to change the policy?

MR. CANGELOSI:

Yes. To change the policy to direct the

0132

staff to no longer use the reducing balance in the lines of credit guarantee.

MR. REINE:

That's what I said.

MR. ROY:

We have a motion, and is there a second?

MR. MESSER:

Second.

MR. ROY:

Any discussion ?

(No response.)

MR. ROY:

Hearing none, all in favor, "aye".

(Several members respond "aye".)

MR. ROY:

All opposed, "nay".

(No response.)

MR. ROY:

Without objection.

Okay. Well, Ms. Villa, the Treasurer's Report.

MS. VILLA:

Did we want to get Susan from outside? I think Susan is going to do the Accountant's Report, I think.

0133

MR. ROY:

Susan's going to do the Accountant's Report?

MS. VILLA:

Yes. That's what's next on the agenda.

MR. ROY:

Well, you're the expert.

MS. VILLA:

Okay. I can go ahead and give the Secretary Treasurer's Report.

As of October 18, 2013, we're -- I'll just go to Page 2. One is more of a summary. Page 2, the Financial Assistance Program currently has a budget of 40,000. We currently have no activity, and the expected projected yearend balance is 40,000.

The State Small Business Credit Initiative Program, we have 3,253,087 as our budget, and we have approved extended 265,126, and we have the 375,000 that was pending Board approval for the Natchez New Orleans, which was previously approved this morning, which gives us a balance of 2,612,961, of which we have a balance of 1,250,000 as of this report in the Venture Capital, but that will be changed to reflect the withdrawal of LA Fund II, so that balance will increase next month up to 2,350,000. Just so you know, the

0134

balance that I have stated there for State Small Business Credit Initiative does not include our third tranche. We had three tranches. We currently have our second tranche received from Treasury, although, currently -- If I'm wrong, Brenda -- I think we've only used about 10 percent of that second tranche. Okay. So we still have funding, and with the changes that the Board approved today, we expect the activity to improve and more activity to have coming forth to the department for those loans.

The Capital Outlay Appropriation on Page 3, we currently have a budget of 17,161,895, and we have projects that are currently under review, which are listed there of 5,125,000, which gives us a projected yearend balance of 12,036,895. Yesterday we had the bond commission meeting, and the Priority V funding was approved. The Priority II funding was not on the agenda was, so we expect that to be on the agenda in the upcoming months, so that balance will be changed next month as well.

For Capital Outlay Appropriations in regard to EDRED, we currently have a budget of 1,354,614, and we have approved projected expenditures of 99,975 and we have a project currently under review with CSRS of 249,750, which would give us a yearend

0135

balance of 1,004,889.

If you go to Page 4, General Appropriations for our projections for FY 13-14, is the Fund Balance, the 5,120,694. The details of that Fund Balance is listed on Page 5 at the bottom for your review. We have cash from investments that are projected, 3,228,931. And then the other majority of our projected revenue, obviously, the vendor's comp is 9,600,000, which gives us the total Fund Balance available projected at 17,978,625.

And then we have our projected expenses listed below by category, which leave us with a balance of $78,384.

And as we mentioned earlier, these are cash from investments that we had long discussion on that. We typically in the past had more funding come in from cash from investments. We're expecting to have some additional investments that we'll have that's not reflected in this one. It will been that LA Fund I that we talked about earlier.

MS. BIGNER:

Yes. All of LA Fund I is supposed to -- we're supposed to get distributions over the next three years, so it would probably be two years before we hit the $5-million mark, and then those funds would come in,

0136

so it would probably be about two years before we see anything from LA Fund I.

MS. VILLA:

So unless you have any questions, I'll turn over to Mrs. Susan.

Just before I turn it over to Susan, we are still undergoing our audit of the financial statements from LEDC for the period ending 6/30/2013. We've had a couple things that have gone back and forth. Hopefully we'll have those able to present to you as well as our investments that we have and we'll have a presentation from the advisors on that and the evaluation company on that, and hopefully we'll have that at our November meeting. We're a tad bit behind. We're a little bit further behind than what we typically are at this time. We usually present to the Board, I think, in October those findings, but we've been working

with our auditor and with the evaluation company.
MR. ROY:
Is that Anise Bourgeois?
MS. BIGNER:
No. The auditor is Aaron Cooper, Chaffe & Associates. They do the evaluations each year.
MR. ROY:
Okay. Susan.
0137
MS. BIGNER:
Good afternoon again, or good morning. I have the Treasurer's -- I mean, the --
MR. ROY:
I'm sorry. Let me interrupt you. I need a motion to accept the Treasurer's Report.
MR. REINE:
Let me one more question before we move, the Stadium Exposition District, how long has that been on that books?
MS. VILLA:
It's paid. It was paid last year.
MR. REINE:
Oh, it was paid?
MS. VILLA:
Yes.
MR. REINE:
Okay.
MS. VILLA:
We put it -- actually we put a portion in the fiscal year '12, and the balance in fiscal year '13, if I'm not mistaken.
MS. BIGNER:
Yes. There was 10 percent that they hold for any outstanding expenses, and we received the
0138
10 percent less expenses last year, so the bulk of it was two years ago.
MR. REINE:
Congratulations.
MR. ROY:
Motion to accept the Treasurer's Report. Do we have a second?
MR. REINE:
Second.
MR. ROY:
Any discussion?
(No response.)
MR. ROY:
Hearing none, all in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
Susan.
MS. BIGNER:
All right. I have the Accountant's Report. On the Participation Loans, we have MV Realty, LLC. The current balance is 338,570.
0139
On the Direct Loans, we have Aviation Group. It's down to $181,959, and it's current. The

only thing that is past due is MV Realty, and they're still trying to settle on that one.

MR. BROWN:

May I approach? I've got a report on that.

MS. BIGNER:

Good. Thank you.

MR. BROWN:

Hope Credit Union is a catch 22 with them. The borrower had some personal assets that were sold in a short sale. The only thing of value he has right now is the Honda store, and they're threatening to take that from him. That's the most valuable thing he has. He's trying to sell it and settle with Hope Credit Union and some other people, and Hope will not force the hand, because if they do, Honda's going to end that store and he's going into Chapter 13 or 7 in doing so. So in essence, what he's asking is that we give them a little bit more time to try to get the value for the store itself, hopefully we can be made whole. They believe they can be made whole with the value of that Honda store. Other than that, our portfolio looks great.

0140

MR. ROY:

All right. Susan.

MS. BIGNER:

Next, listed on Page 1 are the EDLOP loans that are paid down. Everything is current with 1,944,578. As you can see, we sent a demand letter for Truth South, and they turned around and made the payments, so it did not stay there very long. I was very glad to see that.

On Page 2, we have the Guaranteed Loan Portfolio. I believe these are just the -- these are the LEDC for the nonfederal loans. Everything is current, 4,041,049.

The next page, we have the Allowance for Loan Losses. The balance of the reserves is 365,864 on the balance. Our reserves for the EDAPs and EDLOPs as following. That reserve right now is at $291,687 and our allowance for Nonfederal Guaranteed Loans, that balance is 913,793.

On the next page are the --

MR. ROY:

I have a question. Is that a methodology reviewed by our auditors annually?

MS. BIGNER:

Yes, sir, it is. In the past, we had

0141

set the reserves at certain percentage. I believe -- if I remember correctly. I'm hoping I'm correct -- on our Direct and our Participation Loans, I believe it's at -- I want to say both of them are at 18 percent. All three of them are currently about 18. Maybe our Guaranteed Loans may be a little bit higher than that. If you recall, we have a Loan Loss rate of about seven percent, if not lower than that, so it's very conservative. On an annual basis, they do look to see what we have received and what has been charged against it, as well as checking on that reserve amount that it was kept every year.

MR. ROY:

Okay.
MS. BIGNER:
Next we've got the SSBCI Loan Guarantee Report. That's current. The current balance on that is 2,813,524, and everything is current on that as well.
Following that --
MR. REINE:
Let me ask you on Convent Contractors, what's the NC stand for?
MS. BIGNER:
On which one? I'm sorry?
Oh, not closed.
0142
MR. REINE:
Okay.
MS. BIGNER:
In other words, they've been approved, but we don't have the closing documents yet. I'm expecting that Convent General Contractors is not going to close, and I believe we have an expiration date on the commitment letter of the 23rd, and I spoke to the banker this week and he said it doesn't look like they're going to be able to meet the commitments. There was a certain -- there was a judgment against the company, and at first, the company said, no, it wasn't him and then later he came back and he said, no, it was him and we're trying to settle. So due to that, I don't expect that it's going to close, but I did tell the banker that after everything is settled, if they would still like to come back to us for another guarantee, they'd be more than welcome to at least hear it so...
So following that, the Financial Statements, this is month-to-month, and then following that is cash flow. The balance sheet, income statement, cash flow and sources and applications, source and uses of funds.
Any questions? I'll try to answer them.
MR. ROY:
0143
Any questions for Susan?
MR. ANDRE:
Motion to accept the Accountant's Report.
MR. ROY:
Motion to accept the Account's Report as present.
MR. MESSER:
Second.
MR. ROY:
Second.
All in favor, "aye".
(Several members respond "aye".)
MR. ROY:
All opposed, "nay".
(No response.)
MR. ROY:
Without objection.
MS. BIGNER:
Thank you.
MR. ROY:
Thank you, ma'am.
Mr. Messer, the President's Report.
MR. MESSER:

The only thing that separates us from

0144

lunch, so I will be brief.

First of all, I want to give a hat tip to my fellow Board members. I thought -- first of all, I want to thank you for your continued service, and I thought today's discussion engagement was exactly what we need as staff in order to move policies forward for small businesses throughout the State, so thank you very much for your service as well as your very active engagement.

So the second hat tip I want to give to is LEDC staff. I'm relatively new in my position, but I want to publicly salute them for their tireless work. They're very excellent stewards of the publics purse, so I wanted to publicly put that on record.

I also want to thank my colleague, the Undersecretary, Anne Villa, has been very helpful to me as I move forward, as well as Mr. C.

Allow me just less than two minutes because I know you folks are looking for the clock and my stomach is growing, but I just want to say the following: LED and the entire State is on the road for an incredibly promising period of economic development. You've seen some of the landmark wins and project announcements. I just want to highlight a couple of them. As you know, IBM broke ground on the 800-job

0145

technology center in Downtown Baton Rouge. In late September, Shell also announced that there's potential for a world-class GTL facility. Also in late September and earlier this month, we announced a relocation from Houston of Jogler, LLC to Baton Rouge, and that would create 75 new indirect jobs, as well as 60 direct jobs.

We expect that the overall project pipeline will continue to be robust. We think that this is going to create the environment for an even stronger echo system economically throughout the State, all corridors the State, and we anticipate that more and more small business through some of the work that was done today will be coming to this Board, so I just wanted to announce those. If my colleagues have questions about some of the projects, I'll be happy to address those, but I just want to thank everyone for their hard work today.

Thank you.

MR. REINE:

Let me ask you a question, when we talk about creating jobs, do y'all have a mechanism after the fact where you go back and if we created 100 jobs, whether they're construction or full-time -- and there are no bad jobs, but do we ever go back and say we put -- if there was 100 jobs, we put 76 people who were

0146

living in the State of Louisiana in those jobs or they brought all 100 people from some place else? Is there a mechanism in which you go back and look after the fact to determine?

MR. MESSER:

And that's a great questions. I would answer it this way: Obviously in the case for, say, CB&I, that was a contemplated relocation and consolidation. Basically post the acquisition of Shaw by CB&I, there was the fear that we would actually lose a lot of jobs and actually within the region. What's happened is, we basically have people who are not Louisianians moving into the State to basically join those jobs. Now, everybody will not want to come to the State, and that would create the opportunity for Louisianians to have those jobs, but then for some of the larger announcements, such as IBM and Shell and Sasol, we fully anticipate that those jobs would be mostly Louisianians assuming those jobs, but we don't have necessarily a formal look back to say, "Well, how many jobs were Louisianians, how many were necessarily encompassed." If that's responsive to your question.

MR. REINE:

Well, it is, and I would hope that y'all would consider at some point -- I ain't picking on

0147

nobody. Say, Mr. Smith gets $300-million in a package to build a plant, shouldn't we know later on that did Mr. Smith bring all of 100 constructions workers from another state, build the plant and then they go back home and none of our residents got a job? To me, that's problem. We can't ascertain if it's happening if there's no mechanism during the process or at the end to look. I mean, if we're giving away taxpayers' money, the Economic Development should advantage the people in the State if it's State money and how many -- I mean, look, it's great they came. I guess at some point, the permanent employees move to the State, then they're Louisiana residents, but if we have no mechanism to look and see how successful we are about producing opportunities for our people and our businesses here, we may be missing part of the...

MR. MESSER:

I think Susan Bigner may want to clarify something I said earlier.

MS. BIGNER:

When these big projects announce, there are certain programs there are offered to the companies, and under those programs, one of them is that EDAP/EDLOP. One of the reports that they have to submit on a semi-annual basis is an ES4 or employment and job

0148

numbers. We get that semi-annually through the life of the contract, so if there they're supposed to create 100 jobs, they have to prove on those forms that they have at least 100 jobs and that the payroll is equal to what they were offered in the offer letter. If they don't, we have a call back. I know some of the other programs also have reports that have done something similar like that. Quality Jobs, during the life of the contract, they have to have a certain amount, a base amount, and then they have to create a certain number of jobs Enterprise Zone is the same way.

MR. REINE:

That's my concern. Let's pick a city in North Louisiana that's close to the Arkansas border and we give Quality Jobs five-percent rebates or six-percent rebates on payroll and we are going give them some deals and the construction is $10-million, my concern is, do we know if all of those employee came from Arkansas, built the building, took their money back home, which they probably didn't pay their state taxes, but are we

producing jobs for Louisiana people? Is there a mechanism in which we check? Do we -- you know, look, if I say I created 100 jobs and I've got 100 people on the payroll, that's fine, but if we're doing all of this economic development and all 100 of those people drive
0149
from Arkansas to the State of Louisiana, they get their paycheck, then they all go home and we didn't put any our Louisiana people to work, I'm not sure that's what we really want to focus on and we don't know if we are. If we don't, we need to have a mechanism to find out. Do the people that go to work, do they live in Louisiana? Do y'all have a mechanism to determine that?

MS. GUESS:
Well, the only mechanism, Mr. Reine, that we do that is what Susan said. If they are applying for any of the benefits for other programs that we have, I don't think -- I want to say there might be, you know, some companies or there might be some companies where there may be numbers that aren't registered or if they are doing the Arkansas people here in Louisiana, they're not counted as being benefitted to receive anything from any programs that we have.

MR. REINE:
So Quality Jobs doesn't require the person to live in the State of Louisiana, does it?

MS. BIGNER:
Yes. Frank is here.

MR. FAVALORO:
It requires the employee to be domiciled in the State.
0150

MR. BROUSSARD:
I'd like to just ask Frank Favaloro, the administrator of the Quality Jobs.

MR. REINE:
If we're going to do this, I just --

MS. BIGNER:
I think that the majority of our programs state that they have to be Louisiana residents.

MR. REINE:
Thank you. That's what I want to hear.

MS. BIGNER:
You want to go ahead and tell them about the Quality Jobs, that they have to be domiciled?

MR. FAVALORO:
In order to receive the rebate, under the Quality Jobs, B&I programs, such as the Enterprise Zone, the employee has to be domiciled in the State of Louisiana.

MR. REINE:
What's the definition of "domiciled"?

MR. FAVALORO:
Oh, it's a big definition. It's bigger than residency, I can tell you that.

MR. REINE:
At some point, y'all accumulate numbers
0151
we if we dee a package that.

MR. FAVALORO:
Companies have to do due diligence that show employees are domiciled in the State.

MR. REINE:

Thank you. Glad to hear that.

MS. BIGNER:

You're welcome.

MR. ROY:

All right. Good question.

Any other questions?

(No response.)

MR. ROY:

Hearing none --

MR. REINE:

I move we adjourn.

MR. ROY:

Motion to adjourn and to please Mr. Messer's growling stomach.

MR. MESSER:

I commend everybody for the good work today. We look forward to a lot of deals. I think we did some great work.

MR. ROY:

Motion to adjourn.

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Second?

MR. ROUSSEAU:

Second.

MR. ROY:

All in favor, "aye".

(Several members respond "aye".)

MR. ROY:

All opposed, "nay".

(No response.)

MR. ROY:

Without objection.

(Meeting concludes at 12:14 p.m.)

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REPORTER'S CERTIFICATE:

I, ELICIA H. WOODWORTH, Certified Court Reporter in and for the State of Louisiana, as the officer before whom this meeting for the Board of Directors of the Louisiana Economic Development Corporation, do hereby certify that this meeting was reported by me in the stenotype reporting method, was prepared and transcribed by me or under my personal direction and supervision, and is a true and correct transcript to the best of my ability and understanding;

That the transcript has been prepared in compliance with transcript format required by statute or by rules of the board, that I have acted in compliance with the prohibition on contractual relationships, as defined by Louisiana Code of Civil Procedure Article

1434 and in rules and advisory opinions of the board;

That I am not related to counsel or to the parties herein, nor am I otherwise interested in the outcome of this matter.

Dated this 21st day of November, 2013.

ELICIA H. WOODWORTH, CCR
CERTIFIED COURT REPORTER

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