
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: May 31, 2002

SUBJECT: **Proposed Criteria for City's Small Business Revolving Loan Program**

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CC: Rocky Fluhart, David Nimkin, Margaret Hunt, David Dobbins, LuAnn Clark

Document Type	Budget-Related Facts	Policy-Related Facts	Miscellaneous Facts
Resolution	\$4,127,500 is available in the Economic Development Revolving Loan Fund.	In 1991, the City established a revolving loan fund to promote development, which enhances the vitality of the City.	The proposal includes an evaluation matrix to be used by the Small Business Loan Committee for reviewing loan applications.

Following a briefing last fall from the Administration regarding the Small Business Revolving Loan Program, the Council requested that the Administration recommend loan criteria for the Council's consideration and prepare a point-system matrix to be used by the Small Business Loan Committee to evaluate loan applications. The Council established a Council subcommittee to meet with representatives of the Administration during the process of preparing the criteria and matrix. At the recommendation of the City Attorney, the Council also requested that the resolution authorize the Mayor to administer the loan program in accordance with the criteria without Council approval of individual loans. The Council subcommittee, composed of Council Members Turner, Christensen and Buhler, reviewed the proposed criteria and evaluation matrix and recommended that the proposal be forwarded to the Council for consideration.

The Small Business Loan Committee will use an evaluation matrix to rank the applicant's credit history, ability to repay the loan, collateral, management experience, neighborhood impacts, crime issues, and fiscal impacts of the loan relating to job creation and tax structure. The criteria proposes that 70 points out of a possible 100 points on the evaluation matrix be required in order to award a loan.

OPTIONS

Following the briefing, the Council may wish to consider the following options:

- Schedule consideration of the resolution in a future Council Meeting.
- Request that the Administration revise the loan criteria or evaluation matrix.
- Request an annual written report of loan applications and a report on the status of existing loans.

KEY ELEMENTS:

1. Start-up businesses are not eligible to apply for a loan under the proposed guidelines. Operating statements and tax returns for the past three years are required. Newly created businesses will be encouraged to use other resources such as the Utah Microenterprise Loan Fund, Utah Technology Finance Corporation, Small Business Administration, Small Business Development Center, and the Women's Business Center. Start-up businesses generally have a greater risk of loan default. Lenders have to rely on ideas and personalities for start-up businesses rather than management ability and operational experience. *The Council may wish to discuss the exclusion of start-up businesses.*
2. The criteria include refinancing of existing business debt as part of the use of loan proceeds when a business is expanding. For example, a business could request \$60,000 for expansion of the business and \$40,000 to pay off credit card debt. Refinancing of high interest debt allows a business to better afford additional debt for expansion. *The Council may wish to discuss whether refinancing of existing business debt is an appropriate use of the City's loan program.*
3. The criteria doesn't prohibit loans for relocating from one City neighborhood to another City neighborhood. In the past, the Council has generally not provided funds for relocating from an existing Salt Lake City location. The proposed evaluation matrix provides that up to 10 points can be withheld if there are negative community impacts for vacating an existing location. This approach could limit relocations to only those businesses that rate high in most all other aspects of the evaluation matrix.
4. Businesses in areas of major street reconstruction can apply for City loans. The criteria allow loans for land, buildings, new construction, façade and building renovation, landscape, property improvements, purchases of equipment, and working capital. Since working capital is an acceptable use of loan proceeds, businesses along South Temple or in other areas of major street reconstruction can apply for loans under this program. *The Council may wish to consider this loan program as an alternate to expanding the special loan program that the City offered for businesses impacted by light rail construction.*
5. Good credit history is required. Applicants with a credit history score of 620 or below will be denied without further evaluation. Points are to be awarded for credit scores over 620 with up to 8 points for a score of 681 and above. *The Council may wish to discuss the use of credit scores with the Administration as a means of evaluating the credit history of applicants.*
6. Loans may not be fully secured. Loans are to be secured by assets of the business and assets and personal guarantees of the individual borrowers. Those loans fully secured will be awarded 15 points. Marginally secured loans can receive up to 10 points.

7. The City encourages participation of private lending institutions. Five points are awarded if the City's loan funds are being matched by a least 10% private investment. In the past, there has been a loan maximum of \$100,000. Although the proposed criteria do not contain a maximum loan amount, loans greater than \$100,000 require a 2-to-1 ratio of other financing to City funds. For example, a loan of \$100,000 does not necessarily require any other financing, but a loan of \$105,000 would require other financing of \$210,000.
8. The City encourages businesses in certain target areas. Up to 15 points can be awarded if the business is to be located in a target area for business development or a Community Development Block Grant or Redevelopment Agency area.
9. The criteria encourages job creation and other positive fiscal impacts. Up to 5 points can be awarded for job creation or retention with wages comparable to market. Another 5 points can be awarded for projects that increase property or sales tax revenue.
10. The evaluation criteria awards points for projects that include neighborhood revitalization. Up to 10 points can be awarded for businesses that meet a need or provide a service that is not currently available or contributes to neighborhood revitalization or preservation.
11. The interest rate will be the current prime rate if the application receives 80 points or more on the evaluation matrix. The rate will be prime plus 2% for scores less than 80 points. (A minimum score of 70 points is required.)
12. Loan terms are typically 5 years. Applicants can have up to 7 years to repay loans for equipment and up to 20 years for land and building construction. Loans can be repaid sooner or prepaid at any time.

BACKGROUND:

The City Council authorized the use of Urban Development Action Grant loan repayments for economic development purposes by making loans available to small businesses in Salt Lake City. Since 1991 when the City's revolving loan program was established, 22 loans have been made to local businesses. In addition, 34 loans were made to businesses impacted by light rail construction.