
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: January 13, 2006

SUBJECT: **Additional Grant to the Utah Microenterprise Loan Fund**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT. AND CONTACT PERSON: Mayor's Office
Alison McFarlane

On January 10, 2006, the City Council received a briefing on a proposed additional grant to the Utah Microenterprise Loan Fund. Kathy Ricci, executive director of the Utah Microenterprise Loan Fund, explained that many of the loan applications currently come from word of mouth. Council members urged the Administration and Ms. Ricci to expand the efforts to promote the program and to especially reach out to minority residents. A mailing will be sent to home-based business owners within the City, and additional television public service announcements will be explored.

The program has \$188,000 of City funds remaining, which could fund approximately 11 more loans. There is more than likely sufficient funding for at least the next five or six months without the additional grant.

The interest rate for loans is the prime rate plus 5%. Kathy Ricci explained that the interest rate is set so that the program is not in competition with commercial loans or loans backed by the Small Business Administration, and that it reflects the level of risk associated with the loans. A major part of program operations and administration is funded from interest revenue.

Loan principal repayments revolve back to the City's loan program administered by the Utah Microenterprise Loan Fund. Ms. Ricci was not yet able to give the Council an idea of when the Loan Fund could operate on loan repayments without additional grants from the City. In time, City funding from the Small Business Revolving Loan Fund could become depleted since an additional funding source hasn't been identified.

There are sufficient budget appropriations in the Small Business Revolving Loan Fund to process the grant without a budget amendment. The City's Small Business Revolving Loan Fund currently has a budget of \$1,748,900 with an additional \$780,000 in loan repayments that will be proposed to be added to the loan program in the next budget opening.

POTENTIAL MOTIONS:

1. ["I move that the Council"] **Adopt a resolution approving a \$250,000 additional grant to the Utah Microenterprise Loan Fund.**
2. ["I move that the Council"] **Adopt a resolution approving a \$250,000 additional grant to the Utah Microenterprise Loan Fund with an effective date of June 1, 2006** (or some other date that a Council Member may wish to propose) **to address the reality that the program has sufficient funds at this time.**
3. ["I move that the Council"] **Adopt the resolution with the condition that the interest rate for loans be lowered from the prime rate plus 5% to the prime rate plus 2%** (or some other rate that a Council Member may wish to propose); **I further move that the Utah Microenterprise Loan Fund receive \$2,000** (or some other amount a Council Member may wish to propose) **from the fund for each loan it makes to help cover administrative and operational costs.** (Note: The interest revenue earned by the Utah Microenterprise Loan Fund on a \$25,000 five-year loan is approximately \$650 for each 1% in the interest rate for a total revenue loss of about \$1,950 on a 3% decrease in the loan rate. The revenue loss would actually be greater since many loans are amortized over 10 years with a balloon payment due at the end of the five-year term.)
4. ["I move that the Council"] **Deny the grant request.**

The following information was provided previously. It is provided again for your reference.

In May 2003, the City and the Utah Microenterprise Loan Fund entered into an agreement whereby the City provided \$250,000 to the Utah Microenterprise Loan Fund for a revolving loan fund program for entrepreneurs of start-up and existing businesses located within Salt Lake City who are unable to obtain conventional financing or qualify for a loan from the City's Small Business Revolving Loan Fund. Under the joint agreement, both entities participate in funding the loans.

In August 10, 2004, the City Council authorized additional funding of \$250,000 from the City's Small Business Revolving Loan Fund. The Utah Microenterprise Loan Fund has made 26 loans totaling \$609,400 under the joint-funded loan program. The average loan size was \$23,438. Twenty-four of the loan recipients are still in business. Salt Lake City's portion of the loan funding was \$357,150. The Administration is now proposing granting an additional \$250,000 to the Utah Microenterprise Loan Fund for a total of \$750,000. The funding source for the additional \$250,000 is from the \$2.5 million balance in the Small Business Revolving Loan Fund.

MATTERS AT ISSUE:

1. The Utah Microenterprise Loan Fund is a private, non-profit entity whose mission is to provide financing and management support to entrepreneurs in start up and existing firms that do not have access to traditional funding sources.
 2. Regular loans from the Utah Microenterprise Loan Fund are limited to a maximum loan amount of \$10,000 per business. In order to allow for somewhat larger loan amounts, the City provided grants to the Utah Microenterprise Loan Fund in 2003 and in 2004 to allow businesses within Salt Lake City to apply for loans of up to \$25,000.
 3. Under the agreement, the Utah Microenterprise Loan Fund provides up to 50% of the loan amount up to \$10,000 and shares risks in the same ratio.
 4. Criteria for reviewing applications are the same used by the Utah Microenterprise Loan Fund.
 5. A nine-member credit committee, comprised of volunteer bankers and small business owners, makes the loan decision.
 6. The interest rate is the prime rate plus 5%. Interest is considered revenue entirely for the Utah Microenterprise Loan Fund for programs and administration.
 7. The loans are for a five-year term. Loans of more than \$10,000 can be amortized over ten years with a balloon payment due at the end of the five-year term.
 8. Money from loan repayments revolves back to the appropriate loan account based on each party's pro-rated participation in the loan and is available to loan out again.
 9. Some losses are expected since these applicants usually lack business history and have limited credit or insufficient collateral. One of the 26 loans has been charged off, although the Microenterprise Loan Fund is still negotiating for partial recovery of the \$24,374 loan balance.
 10. The Utah Microenterprise Loan Fund endeavors to make successful loans by providing technical assistance to borrowers by partnering with business assistance organizations including professionals in the areas of accounting, marketing, graphic design, legal advising and computer technology. All applicants are required to participate in receiving the counseling and technical assistance. The Utah Microenterprise Loan Fund receives \$1,000 from the City's grant for each loan it makes to help offset the cost of providing the technical assistance.
 11. A loan origination fee is collected from the loan proceeds to help fund programs and administration. The up-front fee is calculated based on 1% per year of the loan term for a total of 5% on a 5-year loan.
 12. Since the joint program began in August 2003, the Utah Microenterprise Loan Fund has considered 56 applications. Twenty-six loans have been awarded.
 13. There is \$188,000 of City funds remaining in the program, which could fund approximately 11 more loans. The additional \$250,000 requested together with the remaining balance will provide funding for approximately 27 more \$25,000 loans (\$15,000 from City plus \$1,000 for technical assistance per loan).
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Grant Agreement Utah Microenterprise Loan Fund

Guidelines

Eligible Applicants / Loan Amounts / Interest Rate / Loan Terms / Loan Origination Fee / Distribution of Losses

Eligible applicants shall include entrepreneurs of start-up and existing businesses located within the corporate limits of Salt Lake City who are unable to qualify for a loan from the City's Small Business Revolving Loan Fund or obtain conventional financing.

Loan amounts and loan criteria will be determined by the UMLF, but loan amounts shall not exceed \$25,000.

The interest rate shall be the current prime rate plus 5%.

Loans of \$10,000 or less will be amortized for a maximum term of five years. Loans of more than \$10,000 will be amortized over 5-10 years with a maximum term of five years, and a balloon payment due at the end of the term. At that time, the UMLF can extend the term an additional 1-5 years.

The UMLF will charge a loan origination fee of 1% per year of the loan amount (i.e., for a \$10,000 loan amortized for a five year term, the fee will be \$500). For loan amounts larger than \$10,000, the UMLF will charge 1% per year of the loan amount up to a 5% maximum (i.e., for \$25,000 loan amortized for a five year term, the fee will be \$1,250). The fee will not be greater than the 5% for loans that exceed a five year term. The loan origination fee will be collected from the loan proceeds, and will be used by the UMLF for programs and administration.

The UMLF and City will share any losses on a pro-rated basis, based on the structure of the loan (i.e., for a \$25,000 loan, any losses will be shared on a 40/60 basis; for a \$20,000 loan, any losses will be shared on a 50/50 basis).

RESOLUTION No. __ of 2006

APPROVING A GRANT TO THE UTAH MICROENTERPRISE LOAN FUND

WHEREAS, Salt Lake City established an Economic Development Revolving Loan Fund in 1991 (Resolution No. 93 of 1991) to “promote development which will enhance the vitality of the City”; and

WHEREAS, the City renamed the program the Salt Lake City Small Business Revolving Loan Fund and adopted Loan Criteria and and Evaluation Matrix in 2002 (Resolution No. 31 of 2002); and

WHEREAS, the City approved grants to the Utah Microenterprise Loan Fund of \$250,000 in 2003 (Resolution No. 21 of 2003) and of \$250,000 in 2004 (Resolution No. 44 of 2004); and

WHEREAS, the City desires to make an additional grant of \$250,000 to the Utah Microenterprise Loan Fund to stimulate business development and expansion, encourage private investment, promote economic development and enhance neighborhood vitality in the City, said grant to be administered in accordance with the *Grant Agreement Utah Microenterprise Loan Fund* guidelines attached hereto;

NOW, THEREFORE, BE IT RESOLVED by the City Council of Salt Lake City, Utah:

It hereby approves a grant of \$250,000 from the Small Business Revolving Loan Fund to the Utah Microenterprise Loan Fund as provided herein and to execute the necessary documents to make said grant to the Utah Microenterprise Loan Fund in accordance with the *Grant Agreement Utah Microenterprise Loan Fund* guidelines attached hereto.

Passed by the City Council of Salt Lake City, Utah, this __ day of _____, 2006.

SALT LAKE CITY COUNCIL

By: _____
CHAIR

ATTEST:

Chief Deputy City Recorder

APPROVED AS TO FORM
Salt Lake City Attorneys Office
Date 1/12/2006
By [Signature]