
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: March 30, 2007

SUBJECT: **Request from Administration to decrease the interest rate for the City's Business Revolving Loan Fund for construction mitigation and redevelopment displacement**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

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

In 1991, the City established a revolving loan fund to promote economic development and enhance the vitality of the City. The interest rate for the loans is the prime rate, which is currently 8.25%. The Administration is recommending that the interest rate be lowered to 3% for new loans to qualifying businesses impacted by construction or dislocated due to redevelopment projects.

MATTERS AT ISSUE

The City is currently receiving a large number of loan inquiries because of downtown construction projects and redevelopment in Sugar House and in other areas of Salt Lake City. The Administration is requesting authority to make loans at a lower interest rate to provide an opportunity for more impacted businesses to take advantage of the loan program.

The City sets loan interest rates according to the Wall Street Journal prime rate, which is the rate that banks typically lend money to their most-favored customers. As of the date of this staff report, the prime rate reported by the Wall Street Journal was 8.25%. The Administration is recommending that the interest rate for the Business Revolving Loan Fund program carry an interest rate of 3% for (1) businesses impacted by road construction, (2) businesses impacted by downtown development construction, and (3) small, locally-owned, independent businesses that are dislocated due to redevelopment that wish to relocate within Salt Lake City.

Construction mitigation loans have been a higher risk to the City than the other business loans. These loans are limited to \$20,000 per business. Of the 36 road construction loans granted, 6 have defaulted and have been written off, which is a default rate of 16.7% for a total loss to the City of \$51,735. A 25% collateral requirement may be waived based on an evaluation of the applicant's credit history. In the past, the interest rate for most of the road construction loans was about 5%, which was the prime rate at the time the majority of the loans were issued.

Other loans from the Business Revolving Loan Fund including relocation loans are limited to \$100,000 per business if they provide sufficient collateral to secure at least a minimum of 25% of the loan and make cash injection of 10% of the City's loan amount. Loans greater than \$100,000 are required to be fully collateralized. There is currently \$3,804,000 available in the revolving loan fund. However, the potential for business relocation loan applications is considerable. There are a significant number of businesses that will likely lose their lease at the Granite block in Sugar House in addition to

businesses impacted by redevelopment at other locations of the City. The Revolving Loan Fund may not have sufficient resources for all of the relocation costs in addition to the needs of other businesses impacted by construction or those applying under the regular loan program for expansion, etc. The City may need to consider additional resources and tools to aid those businesses needing to relocate so as not to deplete the loan fund.

A description of the loan program and loan terms is included in the Administration's transmittal. One of the loan terms is general liability insurance with minimum coverage of \$1,328,400 per occurrence and \$2,656,800 aggregate. Many small businesses do not carry liability insurance in these amounts and find it very expensive to obtain the coverage. The City Attorney's Office is developing recommendations to address insurance coverage for those contracting with the City including those receiving small business loans. In the interim for the loan program, the City Attorney has been waiving the insurance requirements as allowed by ordinance since the City wouldn't normally have any liability for the acts of an independent business.

OPTIONS:

The Administration is recommending that the interest rate be lowered to 3% for new loans to qualifying businesses impacted by construction or dislocated due to redevelopment projects. The Council may wish to consider the following options:

1. Forward the Administration's proposed resolution (3% interest rate) to a future Council meeting for consideration.
2. Set the interest rate to prime minus some specific percent (such as 3% or 4%) with a minimum of 3% so as to be a little more in line with loan rates available from commercial lenders.
3. Set the interest rate for businesses impacted by construction equal to 5% or the prime rate whichever is less rather than 3% since the City has experienced more risk with these loans in the past.
4. Explore other resources and tools in addition to the Business Revolving Loan Fund to assist those businesses needing to relocate because of redevelopment.
5. Other options that may be identified by Council Members.

CHRONOLOGY:

- 1991 - The City established a revolving loan fund to promote economic development and enhance the vitality of the City. Applications are reviewed by a committee of City staff and two members of the banking industry. The committee makes recommendations to the Mayor. If the Mayor agreed with the recommendation, the loan applications are forwarded to the City Council for consideration.
- 1998 - The Council approved a loan program for businesses along the Main Street light rail corridor. These loans did not require City Council approval of the individual loans.
- 2000 - The Council approved a loan program for businesses along the 400 South construction corridor.
- 2002 - The Council adopted loan criteria, which included a point-system matrix to be used by the Business Loan Committee to evaluate loan applications. By resolution, the Council authorized the Mayor to administer the business loan program in accordance with the criteria without Council approval of individual loans.
- 2003 - The Council amended the loan criteria and authorized a grant to the Utah Microenterprise Loan Fund to help start-up businesses.




ROSS C. "ROCKY" ANDERSON
MAYOR

SALT LAKE CITY CORPORATION

OFFICE OF THE MAYOR

CITY COUNCIL TRANSMITTAL

TO: Lyn Creswell,  Chief Administrative Officer **DATE:** March 16, 2007

FROM: Alison McFarlane, Senior Advisor for Economic Development 

SUBJECT: Adjustment of interest rate for new "Pardon Our Dust" construction mitigation loans, and
Adjustment of interest rate for new loans for local businesses that have been dislocated due to redevelopment

STAFF CONTACTS: Alison McFarlane, Senior Advisor for Economic Development at 535-6306 or alison.mcfarlane@slcgov.com or Edward Butterfield, Small Business Manager at 535-7941 or edward.butterfield@slcgov.com

ACTION REQUIRED: That the City Council adjust the interest rate for construction loans from prime rate to 3%. That the City Council also adjust the interest rate for local, independent businesses dislocated due to redevelopment projects to 3%, if the loan funds requested are to be used for relocation costs when the business moves from one area of Salt Lake City to another.

DOCUMENT TYPE: Resolution

BUDGET IMPACT: \$3,804,206.00 is available in the Economic Development Revolving Loan Fund

DISCUSSION:

Issue Origin: In a City Council transmittal dated March 5, 2003, Salt Lake City's Administration proposed changes to the Small Business Revolving Loan fund that created an ongoing program to make loans to businesses impacted by road construction as part of the Small Business Revolving Loan Fund. At that time, with large city road construction projects either underway or planned for areas that impacted many of Salt Lake City's small businesses including South Temple, 1300 South, 900 South, and 300 South, offering loans to businesses impacted by road construction helped deal with the adverse consequences caused by construction.

Attached is the loan criteria that was established and approved in March 2003. The interest rate that was approved was current prime interest rate. At the time, prime interest rate was around 5%.

Salt Lake City is once again in the midst of a large number of downtown construction projects (City sponsored as well as private developers' projects) and is receiving numerous requests for construction loan information. Current prime interest rate is now 8.25% (March 7, 2007).

Salt Lake City is also experiencing redevelopment in Sugarhouse, at Trolley Square, and in other areas of the city that may dislocate small, locally-owned, independent businesses. A lower interest rate on the loans to assist with relocation would be favorable and helpful to allowing long-standing businesses relocate in another area of the city.

Loan Terms in addition to recommended 3% interest rate:

The loan terms previously set for construction loans would stand with the new adjusted interest rate:

- Business impacted by road construction and redevelopment projects are eligible to apply for loans up to \$20,000 amortized at 3% interest rate for a term of five years. Businesses must be located on the street under construction or within one-half block of the construction. Businesses affected by redevelopment must be displaced by the redevelopment project and have received termination notice by their current landlord. Repayment of principal and interest will be deferred for three months after the construction is completed or the business has relocated as determined by the City's administration.
- Construction loan proceeds may be used for working capital, refinancing existing business debt including credit card debt the borrower can verify was used for business expenses and inventory. Redevelopment loan proceeds may be used for relocation costs including physical improvements to exterior or interior, equipment, or merchandise.
- Loans will be secured by collateral equal to 25% of the loan amount. This requirement may be waived by the Small Business Revolving Loan Fund Committee based on an evaluation of the applicant's credit history, the period of time the business has been in operation, the impact of the road construction or redevelopment on the business, and the viability of the business.
- Loans shall be guaranteed by the businesses and personally by their owners. Borrowers will be responsible to pay closing costs.
- Borrowers must also provide evidence in a form acceptable to Salt Lake City Corporation of current (1) comprehensive general liability insurance with a minimum coverage amount of \$1,328,400 per occurrence and \$2,656,800 aggregate, with the City named an "additional insured"; (2) fire and casualty

insurance upon any property, real or personal, owned or used by them in their operations in an amount at least equal to all indebtedness against the property, with the City named as a "loss payee"; and (3) workers compensation insurance sufficient to cover all of their employees pursuant to Utah State statutes. All insurance required by the City shall be continuous for the term of the loan.

- The application process requires: (1) a completed loan application including a personal financial statement and a list of business obligations, and (2) business tax returns for the past three years or since the business was established if less than three years. (3) The financial information must verify the financial viability of the business and the applicant's credit report must demonstrate payment of past obligations.
- Loan applicants shall be reviewed by the City's Small Business Revolving Loan Fund Committee and forwarded to the Mayor for a final decision.

Analysis:

Current balance of the Revolving Loan Fund is: \$3,804,206.00

During the Main Street and 400 South light rail construction, a total of 34 construction impact loans were granted. (Main Street – 15; 400 South – 19) During the South Temple street improvement construction, 2 loans were granted. Six of the construction loans have been written off. (Total of \$51,734.93).

The Revolving Loan Fund is the City's most effective tool to stimulate small business development and expansion, encourage private investment, promote economic development and enhance neighborhood vitality in Salt Lake City. While the construction mitigation loans have been a higher risk to the City, the costs to Salt Lake City (other than the loans that were written off) are assumed to be covered through the borrower paying the fees associated with the loan and a loan origination fee of 1% of the loan amount.

The intangible benefit to Salt Lake City is the increase in the number and size of businesses in Salt Lake City. Loans are given throughout the City so the economic development is not limited to one area of Salt Lake City. Other benefits may include increase in property value, which increases the amount the City receives in property tax, and a potential increase in sales tax revenue resulting from increased retail activity. Salt Lake City is limited in the incentives or economic development programs it can offer small businesses, and the loan – and the goodwill toward the City that it establishes - is a tangible and beneficial resource the small business owner can receive from the City.

Recommendation: The Administration is recommending that the Small Business Revolving Loan Fund program for businesses impacted by road construction and downtown development construction projects **carry an interest rate of 3% rather than the current prime interest rate.**

The Administration is also recommending that the Small Business Revolving Loan Fund program for small, locally-owned, independent businesses that are dislocated due to redevelopment projects **carry an interest rate of 3% rather than the current prime interest rate when the funds are designated for relocation costs to another business district of Salt Lake City.**

**LOAN PROGRAM FOR BUSINESSES IMPACTED
BY ROAD CONSTRUCTION IN SALT LAKE CITY**

- Description:** Salt Lake City offers loans to businesses adversely impacted by road construction as an on-going part of its Small Business Revolving Loan Fund program.
- Eligibility:** Businesses located on the street under construction or within one-half block of the construction are eligible to apply.
- Loan Amount:** Up to \$20,000.
- Loan Term:** Five years. There is no penalty for prepayment.
- Interest Rate:** Current prime interest rate.
- Use of Loan Funds:** Loan proceeds may be used for working capital, refinancing existing business debt including credit card debt the borrower can verify was used for business expenses, and inventory.
- Repayment:** Repayment of principal and interest will be deferred until three months after the construction is substantially complete as determined by the City's Administration.
- Insurance:** Borrowers must provide current certificates of (1) comprehensive general liability insurance, (2) fire and casualty insurance, and (3) workers compensation insurance.
- Collateral:** Loans will be secured by collateral at least equal to 25% of the loan amount. This requirement may be waived by the City's Small Business Revolving Loan Fund Committee based on an evaluation of the applicant's credit history, the period of time the business has been in operation, the impact of road construction on the business, and the viability of the business.
- Guarantees:** Loans will be guaranteed by the businesses and personally by their owners.
- Closing Costs:** Borrowers will be responsible to pay closing costs.
- Application Requirements:**
1. A completed loan application including a personal financial statement and a list of business obligations.
 2. Business tax returns for the past three years or since the business was established if less than three years.
 3. The financial information must verify the viability of the business, and the applicant's credit report must demonstrate payment of past obligations.
- Review and Approval:** Loan applications will be reviewed by the City's Small Business Revolving Loan Fund Committee and forwarded to the Mayor for a final decision.

RESOLUTION No. ___ of 2007

APPROVING A CHANGE IN INTEREST RATE FOR NEW CONSTRUCTION
MITIGATION AND REDEVELOPMENT DISPLACEMENT LOANS MADE FROM
THE SMALL BUSINESS REVOLVING 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 Evaluation Matrix in 2002 (Resolution No. 31 of 2002); and

WHEREAS, the City amended the criteria for the Small Business Revolving Loan Fund in 2003 (Resolution No. 21 of 2003); and

WHEREAS, the City anticipates potential negative impacts to small businesses during periods of downtown construction and potential displacement of small, locally-owned independent businesses through redevelopment projects throughout upcoming years as aging areas of the City experience substantial capital improvements; and

WHEREAS, the City’s most effective tool for assisting small businesses is the Small Business Revolving Loan Fund and more than 100 Salt Lake City businesses have benefited from the loan program; and

WHEREAS, the City would like to reduce the standard interest rate for new loans made to qualifying businesses impacted by road construction or dislocated due to redevelopment projects from the prime rate, which is currently around 8.25%, to 3% in order to further assist such businesses.

NOW, THEREFORE, BE IT RESOLVED by the City Council of Salt Lake City, Utah that the interest rate on new loans made from the Small Business Revolving Loan Fund to qualifying businesses impacted by road construction or dislocated due to redevelopment projects be adjusted to three percent (3%).

PASSED by the City Council of Salt Lake City, Utah this _____ day of March, 2007.

SALT LAKE CITY COUNCIL

By: _____
CHAIRPERSON

ATTEST AND COUNTERSIGN:

CHIEF DEPUTY CITY RECORDER

APPROVED AS TO FORM:



SENIOR CITY ATTORNEY