
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: April 27, 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 lowering the interest rate for new loans to qualifying businesses impacted by construction or dislocated due to redevelopment projects. The Council received a briefing on April 3, 2007.

NEW INFORMATION

5% Interest rate – Previously, the Administration recommended lowering the interest rate from the prime rate (currently 8.25%) to 3% for (1) for businesses impacted by road construction, and (2) local, independent businesses dislocated due to redevelopment/improvement projects if the funds requested are to be used for relocation costs when the business moves from one area of Salt Lake City to another. After analyzing the cash flow numbers and based on Council Member Buhler's suggestion of a compromise between the 3% and prime, the Administration is now recommending an interest rate of 5% for these loans. The Senior Advisor for Economic Development believes that the 5% rate will still offer an incentive below prime interest rate and will allow the fund to better replenish itself as loans are repaid. The Administration plans to compare the authorized interest rate with the current prime interest each year in April and may come back to the Council with a recommended adjustment. *The Council may wish to discuss the proposed 5% interest rate to determine if it is consistent with the wishes of the majority of Council Members.*

Road construction – The proposed revised criteria states that the lower-interest rate loans will apply as part of a large construction mitigation program such as ombudsman services or City engineering mitigation assistance. The applicant is required to demonstrate a significant loss of revenue over at least one month's time. These two items should eliminate a business from applying simply because of a few days of street maintenance or asphalt overlay. Businesses located on streets under construction or within one-half block (330 feet) of the construction are eligible to apply.

Redevelopment or improvement projects – The lower-interest program is for locally-owned, or independently owned and operated businesses that are current tenants in a redevelopment or improvement project where relocation is necessary. A business must have received an eviction notice or termination of lease due to an improvement/development plan. The business must be relocating within Salt Lake City. The criteria do not specify the size of the project to be improved but allow eligibility to tenants of any size project. The eviction or termination is the qualifying factor when the eviction is due to improvements. The lower-interest rate will be available to tenants of even a small building with only one or two businesses. The Senior Advisor for Economic Development believes that it is preferable to assist with a lower interest rate and help set the business up in another part of Salt Lake City than to potentially lose the business. *The Council may wish to discuss whether it concurs with offering the lower interest rate for any size of redevelopment/improvement project.*

Available loan fund cash – The balance in the Business Revolving Loan Fund as of March 31, 2007 was \$5,013,000. This amount is greater than what was stated in the previous transmittal primarily because of a couple of recent large loan payoffs. In addition, the fund received a reimbursement from the general fund for the North Temple/Redwood Road economic development project.

Potential number of businesses that may apply for loans – The Senior Advisor for Economic Development is aware of a number of large improvement projects including City Creek, downtown Trax extension, Sugarhouse and Trolley Square. Many of the businesses affected by downtown development have already located to new spaces. Several businesses of the Granit block have found new sites and will be able to finance the moves on their own. While there are many businesses impacted, the Senior Advisor for Economic Development does not anticipate a flood of applications. Also, loan applicants must meet all criteria of the loan fund including a comprehensive business plan, meeting credit score requirements, and substantiating neighborhood impact.

Replenishment of Revolving Loan Fund – The Administration reports that during the 12-month period from April 1, 2006 to March 31, 2007, the revolving loan fund received principal payments of \$816,000, loan interest payments of \$115,000, interest on cash balance of \$182,000 and other revenue of \$59,000 (closing costs, UDAG repayments, etc.). Loans receivable of \$3,349,000 were outstanding as of March 31, 2007. This demonstrates that with a little more than \$3,000,000 of outstanding loans, the City will receive about \$1,000,000 in the coming year to revolve back into the loan fund.

OPTIONS:

The Administration is recommending that the interest rate be lowered to 5% for new loans to qualifying businesses impacted by construction or dislocated due to any size redevelopment projects. The Council may wish to consider the following options:

1. Forward the Administration's proposed resolution (5% interest rate) to a future Council meeting for consideration.
2. Set the interest rate to some other rate.
3. Establish a minimum size of a redevelopment project where the current tenants would be eligible for the lower-interest loans.
4. Request additional information or make other changes to the resolution or to the criteria that may be identified by Council Members.

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

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%.

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 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.

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.

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:** April 13, 2007

FROM: Alison McFarlane, Senior Advisor for Economic Development

SUBJECT: Requested additional information and clarification to:
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 or improvement projects

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-impacted business loans that meet specific loan criteria from prime rate to 5%. That the City Council also adjust the interest rate for local, independent businesses dislocated due to redevelopment/improvement projects to 5%, 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 and the business meets specific loan fund criteria.

DOCUMENT TYPE: Resolution

BUDGET IMPACT: \$5,013,000.00 is available in the Economic Development Revolving Loan Fund (3/31/2007 per IFAS). This figure includes recent loan payoffs and all object codes of the revolving loan fund.

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 ongoing part of its Business Revolving Loan Fund.
Eligibility:	Businesses located on the street under construction or within one-half block (330 feet) of the construction are eligible to apply. The construction project must be a city-sponsored improvement project (street, utility, infrastructure, or transportation) and have an ongoing construction mitigation program such as ombudsman services or City engineering mitigation assistance.
Loan Amount:	Up to \$20,000
Loan Term:	Five years. There is no penalty for prepayment.
Interest Rate:	Five percent fixed interest rate. Administration will evaluate prime interest rate each year in April and may recommend to City Council an adjustment to set a more equitable interest rate (based on the current prime rate) for the loan program for businesses impacted by road construction in Salt Lake City.
Use of Loan Funds:	Loan proceeds may be used for working capital, refinancing existing business debt including credit card debt the borrower can verify is 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 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 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 business and personally by the owner.

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.
4. Business must demonstrate loss of revenue due to construction over at least one month's time through sales receipts or other means.

Review and
Approval:

Loan applications will be reviewed by the City's Business Revolving Loan Fund Committee and forwarded to the Mayor for a final decision.

**LOAN PROGRAM
FOR BUSINESSES IMPACTED BY REDEVELOPMENT
OR IMPROVEMENT PROJECTS IN SALT LAKE CITY**

Description:	Salt Lake City offers loans to businesses adversely impacted by building improvement or redevelopment projects as an ongoing part of its Business Revolving Loan Fund.
Eligibility:	Businesses that are locally-owned, or independently owned and operated, that are currently tenants in a redevelopment or improvement project where relocation is necessary are eligible to apply. A business must have received an eviction notice or termination of lease due to the improvement/development plans. The business is eligible for the loan when relocating to another area of Salt Lake City.
Loan Amount:	Up to \$100,000
Loan Term:	Five years. There is no penalty for prepayment.
Interest Rate:	Five percent fixed interest rate. Administration will evaluate prime interest rate each year in April and may recommend to City Council an adjustment to set a more equitable interest rate (based on the current prime interest rate) for the loan program for businesses impacted by redevelopment or improvement projects in Salt Lake City.
Use of Loan Funds:	Loan proceeds may be used for relocation costs, tenant improvements, working capital, refinancing existing business debt including credit card debt the borrow can verify is used for business expenses and inventory.
Repayment:	Repayment of principal and interest will be deferred until one month after the tenant opens operations in the new location. The business must open operations within 3 months of receiving the loan.
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 Revolving Loan Fund Committee based on an evaluation of the applicant's credit history, the period of time the business has been in operation, and the viability of the business.
Guarantees:	Loans will be guaranteed by the business and personally by the owner.
Closing Costs:	Borrowers will be responsible to pay closing costs.
Application Requirements:	<ol style="list-style-type: none"> 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. 4. Termination of lease, or eviction notice, or other evidence of relocation necessity. 5. New lease or purchase contract for new location.
Review and Approval:	Loan applications will be reviewed by the City's Business Revolving Loan Fund Committee and forwarded to the Mayor for a final decision.

April 13, 2007

TO: City Council Members

FROM: Alison McFarlane , Senior Advisor for Economic Development

RE: Cash Flows from Revolving Loan Fund for Requested Projection of Payments

During the twelve month period beginning April 1, 2006 and ending March 31, 2007, the Revolving Loan Fund (72-15607) generated cash in the following categories and amounts:

1. Principal payments; \$816,000
2. Loan interest payments; \$115,000
3. Interest on cash balance; \$182,000
4. Other revenues; \$ 59,000

Total is \$1,172,000

The cash balance at 3/31/2007 per IFAS is \$5,013,000.

The loans receivable at 3/31/2007 per IFAS is \$3,349,000

The rate of interest credited on cash balances for the same period averaged 4.99 percent and has been above 5 percent since August, 2006.

RESOLUTION No. __ of 2007

APPROVING A CHANGE IN INTEREST RATE FOR CONSTRUCTION AND
REDEVELOPMENT LOANS FOR THE 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 made changed to the criteria for the Small Business Revolving Loan Fund (Resolution No. 21 or 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 Revolving Loan Fund and more than 100 Salt Lake City businesses have benefited from the loan program,

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

It hereby approves a change in the interest rate for the Revolving Loan Fund for businesses impacted by construction and businesses dislocated due to redevelopment projects that meet the established loan criteria from prime interest rate to 5% interest rate.