
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: May 11, 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 and a follow-up briefing on May 1, 2007.

NEW INFORMATION

3% Interest rate - The Administration is recommending lowering the interest rate 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. This latest interest-rate recommendation is based on a more recent cash flow analysis (attached to the Administration's transmittal). This analysis demonstrates that the difference in interest revenue between offering loans at 3% and offering loans at 5% is fairly immaterial compared to the total cash available in the loan fund and compared to the annual amount of projected loan repayments. The cash balance in the loan fund is \$5,013,000. The Administration projects that the City will receive about \$1,000,000 in loan payments during the coming year to revolve back in the loan fund.

The Senior Advisor for Economic Development does not anticipate more than a total of 10 construction mitigation and redevelopment displacement loans throughout the coming 12-month period. Some of these loans will be issued in the amount of \$20,000, which is the maximum for businesses impacted by road construction. Other loans will be issued in the amount of \$100,000, which is the usual maximum for other loans. (Loans greater than \$100,000 are required to be fully collateralized.) Another way to look at the difference between an interest rate of 3% and an interest rate of 5% is to assume that the total amount of the ten loans will be \$500,000 or an average of \$50,000 per loan. The interest on \$500,000 at 3% over the five-year repayment period is \$39,060. The interest on this same amount at 5% over five years is \$66,140 or a difference of \$27,080, which is an average of \$5,420 per year.

Capping amount of loans –The Administration will review the status of the loan program after 12 months and determine whether to make a recommendation to the City Council for an adjustment to the interest rate or whether the amount of loans at the lower interest rate should perhaps be limited. Because the Senior Advisor doesn't expect a large number of loan applications, she is not recommending capping the amount of lower-interest-rate loans at this time but will report back to the Council in one year.

POTENTIAL MOTIONS:

If the briefing, several Council Members expressed support of the 3% interest rate. The Council has several options relating to the proposed resolution including the following.

1. ["I move that the Council"] **Adopt the proposed resolution setting the interest rate at 3% for new loans made to qualifying businesses impacted by road construction or dislocated due to redevelopment projects.**
2. ["I move that the Council"] **Adopt the proposed resolution setting the interest rate at ___% [insert interest rate such as 4% or 5%] for new loans made to qualifying businesses impacted by road construction or dislocated due to redevelopment projects.**

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

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. The prime rate reported by the Wall Street Journal is currently 8.25%.

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.

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 Granite block in Sugarhouse 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.

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 agrees 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:** May 7, 2007
FROM: Alison McFarlane, Senior Advisor for Economic Development 
SUBJECT: Request for reduction of Revolving Loan Fund interest rate on
Construction Mitigation and Business Relocation or Redevelopment Loans
(including Cash Flow Comparison of 5% and 3% Interest Rate)

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 3%. That the City Council also
adjust the interest rate for local, independent businesses
dislocated due to redevelopment/improvement 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 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.

DISCUSSION:

Based on the Cash Flow Analysis (see separate page) of a 5% interest rate and a 3% interest rate, the Administration is recommending the interest rate for construction mitigation and relocation/redevelopment loans be set at 3%. Presently, the loan balance is higher than usual due to a number of larger loan payoffs, and the fiscal impact to the replenishment of the loan fund between the 5% and 3% interest rate does not substantially impact the cash flow to the loan fund. Since the main objective of the construction mitigation and redevelopment loan program is to provide an incentive for small businesses to sustain operations during difficult construction periods, or allow a profitable but displaced Salt Lake City business to open operation in another part of the City following a lease termination due to redevelopment, the lower interest rate provides the greater incentive. The Administration does not anticipate more than a total of 10 loans throughout a 12-month period. The Administration requests to offer the lower interest rate during the next 12 months, conduct an analysis of the program, and potentially come back to City Council in May 2008 with adjustments to the program based on current prime rate and program statistics.

Since the loan fund has a particularly high balance, and staff does not anticipate a high volume of applications for the loans, and the Administration reserves the option to review the program after a 12-month period, the Administration does not recommend capping the amount of the total loan fund that can be used for the lower rate mitigation and redevelopment loans.

RE: Cash Flow Comparison of 5% and 3% Interest Rate on Construction Mitigation and Business Relocation or Redevelopment Loans

Construction Mitigation Loans

Amount: \$20,000 Term: 5 Years

Interest: 5%

Total interest paid over 5 years: \$13,227

Yearly Cash Inflow: \$4,524

Payment: \$377

Interest: 3%

Total interest paid over 5 years: \$7,812

Yearly Cash Inflow: \$4,308

Payment: \$359

Business Relocation Loans

Amount: \$100,000 Term: 5 Years

Interest: 5%

Total interest paid over 5 years: \$13,227

Monthly Payment: \$1,887

Yearly Cash Inflow: \$22,644

Interest: 3%

Total interest paid over 5 years: \$7,812

Monthly Payment: \$1,796

Yearly Cash Inflow: \$21,552

The staff does not anticipate more than ten construction mitigation and business relocation loans granted annually in various denominations. The ten loans are estimated to equal a total of \$500,000. The difference in accrued interest on \$500,000 over five years for an interest rate of 3% versus 5% is \$27,080.

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 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