



Memorandum

To: City Council
From: Ben Cowan
Date: 6/24/2016
Re: Revolving Loan Fund

This memo is in response to your request for information on revolving loan funds. With regard to a revolving loan fund, Section 11.9 of the City's Charter states:

City Not to Pledge Credit:

The City shall not lend or pledge its credit or faith, directly or indirectly, or in any manner to, or in aid of any person, corporation, or other organization, public or private, for any amount or any purpose whatsoever, or become responsible for any debt, contract, or liability thereof.

Perhaps a legal opinion should be gathered to determine whether such a program is permitted according to the charter language.

However, there are a variety of community benefits that could be derived from the establishment of a revolving loan fund. A revolving loan fund can help with 1) establishment of new businesses, 2) capital improvements or expansion of existing businesses, or 3) building façade improvements. It can be designed to encourage economic development, community investment, and job creation.

By way of background, a Revolving Loan Fund (RLF) is a source of money from which loans are made for multiple small business development projects. As loans are repaid, the capital is then relaned for other projects.

If the Council desires to establish a revolving loan fund, there are a variety of considerations that need to be made:

Objectives (why would the community benefit from establishment of a loan program)

- Promote economic development
- Job creation
- Capital investment
- Downtown vitality
- Redevelopment
- Increase tax revenue
- Beautification

Capitalization:

- City funds (Strategic implementation reserve, 33% fund balance requirement)
Keeping in mind that a well-functioning revolving fund would have an equal amount recapitalized each year. In theory, a 5-year term program would have 1 fifth of funds available each year for reloaning.
- Grants
- Donations
- Other leverage

Approval Process:

- Committee
 - City Council
 - Independent but appointed body
 - Banker
 - Business development consultant
 - City staff
 - Accountant
 - Attorney
 - Citizen
- Loan Determination
 - First-come, first served
 - Open cycle with due date
- Avoiding interest conflicts in a small community
- Application
 - Detailed plan for use of funds
 - Letter of approval from building owner if leasehold improvements
 - Pictures of the existing structure and description of improvements
 - Detailed written estimate of costs
 - Any permits (if required)
 - Copy of Business Plan
 - Release for reference checks
 - Prior tax returns
 - Proprietary info to judge ability to make payments
 - Promissory note required as security
 - Only one loan per entity

Eligibility:

- What type of entities are eligible for funding? Examples include:
 - Sole Proprietorships
 - Partnerships
 - Corporations
 - Limited Liability Companies
 - Non-Profits
 - Local Governments and Special Districts

- What are the accepted uses of funds?
 - Working Capital
 - Equipment
 - Inventory
 - Building improvements (structural, roofing, etc.)
 - Building façade upgrades (paint, awnings, siding, cornices, signs, etc.)
 - Improvements other than buildings (planters, sidewalks, utilities, etc.)
 - Parking

- What are funds not available for?
 - Personal use
 - Gambling
 - Real Estate Development
 - Any speculative purpose
 - Refinancing
 - Property acquisition
 - Legal fees
 - Labor costs paid to the owner/applicant or relatives of the owner/applicant
 - Interior improvements
 - General maintenance

- What locations are eligible for funding?
 - Central Business District
 - Commercial
 - Commercial Mixed Use
 - Industrial
 - B1 – Professional Business
 - City limits

Terms:

- Interest Rate?
 - 0%
 - Prime (lowest rate of interest available), currently 3.5%
 - Other

- Term?
 - 3 years
 - 5 years
 - 10 years

- Amount (dependent upon capitalization)
 - Minimum
 - Maximum

- Payments?
 - Lump sum
 - Receipt reimbursement
 - Periodic payments

- Repayment
 - Monthly
 - Quarterly
 - Annually

- Delinquency Penalties
 - Interest rate increase
 - Suit in County or District court
 - Collections
 - Tax lien for utility loans
 - Seizure
 - Abatement

- Borrower Participation?
 - Collateral
 - Down-payment
 - Personal guarantee (LLCs or Corporations)

Other Business Lending Sources:

- Local banks
- National banks
- Region 10 Business Loan Fund
 - Community Development Block Grants (CDBG)
 - Small Business Administration (SBA) Microloan Program
 - USDA Intermediary Relending Program (IRP)
 - Repaid or “Revolved” Loans
- Small Business Finance Corporation (SBA 504 business real estate lender)
- US Dept of Agriculture Rural Development (variety of grant and loan programs)
- Colorado Lending Source (small business lender)

Other Considerations:

- Banking regulations, other regulatory issues
- Marketing/promotion
- Administration (City staff or contract with a local bank, professional, or other institution)
- Inspection
- Oversight
- Competition with local banks