

CITY OF BATAVIA

DATE: June 23, 2010
TO: Government Services Committee
FROM: Randy Recklaus, Assistant City Administrator
SUBJECT: Revolving Loan Fund Program Update

Since 1986, the City has administered a Revolving Loan Fund (RLF) program funded by the State of Illinois Department of Commerce and Economic Opportunity. Since the program was initially introduced 6 projects have received a total of \$255,490 in funding. The fund currently has \$288,000 available to businesses meeting the specified criteria.

Since the RLF was brought to you last year with application revisions, staff has taken numerous opportunities to market the program and offer the program as an incentive to assist potential and existing businesses with moving or expanding their business in Batavia. To date there has not been any business that the program was a good fit. Mainly, businesses have either been looking for a much larger amount of funding or much less. Since we have not been able to increase the amount of money allocated to the program, staff wanted to explore the option of creating a sub loan program under the RLF program umbrella but for smaller businesses that need assistance with growing their business but at a much smaller scale.

Staff was approached by the Chamber of Commerce with a concept presented by one of their members to explore creating a Micro Loan Fund to assist the smaller businesses in town. The idea presented was to offer loans from \$10,000 to \$25,000. As staff explored this option, the challenge emerged of how to finance such a program. The economy is not effecting just the downtown area but all businesses in the city so TIF funds would not be able to finance such a program. Staff contacted the state to see if using the RLF would be possible and were told that the City would need to alter the Strategy Statement that was originally submitted to the State prior to changing the program.

In order to utilize the RLF to finance a Micro Loan Fund, staff recommends the following procedures occur:

1. Creating a Micro Loan Fund as a subsidiary of the Revolving Loan Fund not to exceed \$100,000 in total.
2. The maximum amount of funds requested by a business cannot exceed \$25,000.
3. For each \$10,000 requested a job must be created or retained (job creation or retention is a requirement of the RLF program as designed by the State and must be adhered to as part of this program as well)
4. Funds can be used for a variety of business needs including acquisition, construction, rehabilitation, machinery and equipment, or installation of commercial and industrial facilities and working capital expenses. Working capital expenses are limited to the following: inventory, employee salaries and general operational expenses.

Attached is a revised Strategy Statement that can be submitted to the State to potentially allow the City to create the subsidiary program.

The program will continue to address the goals stated in the Comp Plan. Specifically, goal 5, "Increase employment and housing opportunities for City residents suited to a variety of lifestyles and income levels," since the program is tied directly to the number of jobs created; and goal 6, "form effective partnerships with private investment to jump-start redevelopment" since the program encourages private investment in the community.

Staff would like feedback and direction from the Committee as to if this is something that should be explored further and if Staff should draft an application and process for this grant.

Staff Recommendation: Discussion of the Micro Loan Fund Program as a subsidiary program to the Revolving Loan Fund. Provide direction to Staff to move forward with this grant program and pursuing the necessary changes with the State.

If you have any specific questions beforehand, please contact me.

CC: Mayor and City Council, Bill McGrath, Peggy Colby, Meredith Hannah

Recapture Strategy Statement

For City Batavia Revolving Loan Fund

June 23, 2010

The funds recaptured from the CDAP economic development loan project will be used to capitalize a revolving fund will assist in the creation of new industrial and commercial business, the expansion of existing business, business retention, and/or provide public facilities improvements in the direct support of economic development.

All uses of funds will result in a specific number of jobs created or retained.

The eligible uses of the funds are: acquisition, construction, rehabilitation, machinery and equipment, or installation of commercial and industrial facilities and working capital expenses. Working capital expenses are limited to the following: inventory, employee salaries and general operational expenses.

Geographic Area Covered by Revolving Loan Fund

Only businesses that are located in Batavia are eligible for revolving loan funds.

Deposit Arrangement of Unobligated Funds

The city of Batavia will have a separate account established at a local bank for the revolving loan fund account and for all unobligated funds.

Administrative Elements

Administrative costs will be paid out of the revolving loan fund, not to exceed ten percent of the total recaptured Community Development Assistance Program funds.

Any changes made to the Recapture Strategy Statement will be approved by the city of Batavia and DCCA.

Job Service and Job Training Partnership Act agencies will be encouraged to provide applicants for jobs created.

Funds will be used in a manner which emphasizes the use of lending institutions and private investment. At a minimum, 50 percent of each project financed in part by the revolving loan fund must come from

other sources, including said lending institutions and private investment which includes the investment by the applicant.

All funds loaned must provide at least 51 percent benefit to low/moderate income persons. A business must create or retain at least one permanent full-time or full-time equivalent job per \$10,000 of loan funds. The applicant must provide written documentation of such compliance.

Management Plan

The mayor, city attorney, city administrator and city finance director shall be members of the Business Loan Review Committee. The mayor shall appoint four local business representatives, with financial background , to serve on the Business Loan Review Committee.

The Committee shall review all applications to the revolving loan fund after the City Administrator and Finance Director have packaged the application. The Committee will meet with the applicant and a representative of the participating lending institution to negotiate terms and ensure compliance with the revolving loan fund goals and objectives. A recommendation will be prepared for the City Council's review and action in the form of a loan commitment agreement.

The Revolving Loan Fund will be administered by the city administrator, city finance director and city attorney. All loan documents will be prepared by the city attorney, including security interest documentation. The city's finance director shall be responsible for collection and accounting for each loan including reports required in the loan commitment. The staff will be responsible for monitoring the status on each loan.

In the event of a bad loan, legal steps will be taken to recover revolving loan funds.

The city agrees to report quarterly on the status of the revolving loan fund to the Department of Commerce and Community Affairs.