419 Fulton Street
Peoria, IL 61602

File #: 20-218, **Version:** 1

ACTION REQUESTED:
Communication from the City Manager with a Request for the Following:

A. APPROVE the New EDA CARES ACT REVOLVING LOAN FUND Plan; and

B. ADOPT an ORDINANCE Amending the CITY OF PEORIA 2020-2021 BIENNIAL BUDGET Relating to a New Revolving Loan Fund Program through a Grant from the Economic Development Administration (EDA) Cares Act Recovery Assistance, in the Amount of $1,419,000.00, and the Corresponding Expenditures of $1,290,000.00 to Establish the Loan Fund and $129,000.00 for Administrative Costs.

BACKGROUND: The City is planning to establish a new Revolving Loan Fund (RLF) Program through a grant from the Economic Development Administration (EDA). The EDA will award $1.419 million of CARES Act Recovery Assistance grant to the City of Peoria to a) capitalize a $1.29 million loan fund and b) provide $129,000 to administer the program. EDA will fund the grant 100% and will not require local matching funds from the City.

In order to receive EDA funds, the City must approve a new RLF Plan (attached) separate from its existing RLF Plan. The RLF Plan serves as an operating manual and specifies the following:

- <u>Purpose</u> - To preserve and create jobs by making capital more accessible through “gap financing,” in the form of debt, on projects determined to be financially viable.
- <u>Strategy & Procedures</u> - The parameters must be within the regulatory limits set by EDA and in accordance with “Prudent Lending Practices.” Such practices include loan processing, documentation, approvals, servicing, legal compliance, and administrative procedures.
- <u>Loan Parameters</u> - This includes maximum and minimum loan size, loan dollars per job ratio, owner equity requirements, and other parameters.
- <u>Capital Deployment</u> - EDA’s policy is for RLF operators to deploy capital similar to peer lenders, currently 62%. If the capital utilization is persistently low such funds may be subject to suspension or termination. If default rate exceeds 20%, corrective action is expected.
- <u>Approval Requirements</u> - Upon receiving a loan application, the loan is reviewed and underwritten by staff. Based on loan thresholds, the loan is presented to either staff and/or to City Council for approval. After a loan is approved, a loan agreement and closing documents are executed, funds are disbursed, and filings are made to perfect and maintain security interest in the pledged collateral.

Reporting is required every six months (June and December) to EDA showing loan activity and account balances. EDA also requires loan grant recipients to update their RLF Plans every five years. An overview of both the new and existing RLF Plans are described below with a table (attached) showing their similarities and differences.

<u>NEW RLF - OVERVIEW</u>

The goal of the new CARES ACT RLF Program, named the ***Peoria Business Recovery Loan Program***, is to provide critical gap financing to small businesses and entrepreneurs *adversely affected by the coronavirus pandemic within the City of Peoria.* Funds provided for the new RLF came through EDA under the CARES Act. Key legislation was passed to allow RLF operators to deploy funds quickly and make capital more accessible. Over two years or until all funds are disbursed, EDA has waived the following administrative rules: a) a minimum interest rate, b) loan portfolio leveraging requirement, and c) credit elsewhere requirement. These waivers allow for interest rates as low as 0%, funding up to 100% of the project, and primary/sole-source lending.

In addition to providing individualized loans up to $250,000, staff has developed two standardized loan products (the Business Capacity Conversion (BCC) loan and the Business Two Landlord (B2L) Partnership Loan) to deploy funds strategically and quickly. Both these loan products have been designed and tailored for businesses dealing with critical financial issues under COVID-19. Businesses will be able to obtain attractive, competitive, and flexible financing with conversion features with varying interest rates, amortization periods, deferred payments based on the shape of the recovery and their capacity to generate revenue.

The BCC and B2LP loan instruments can be used separately or together for a given project and layered with other financing provided the funding used for a given loan is not duplicated with other financing instruments. The BCC loan is geared towards business needing working capital and the B2L Partnership Loan is geared for businesses and landlords partnering via their leasing agreement to encourage repayment, reinstatement, forbearance, and/or modification of their lease. Below and attached is a table summarizing the parameters of both standardized loan products:

PEORIA BUSINESS RECOVERY LOA
Standardized Loan Product

	Business Capacity Conversio			Business to Landlord (B2L) Pa		
Restore IL Plan	Startup/Re	Recovery	Revitalizat	Startup/Re	Recovery	Revitalizati
Business Operational Capacity	0% to unde	50% to under 75%	75% to 10	0% to unde	50% to under 75%	75% to 10
	Loan Parameters			Loan Parameters		
Eligible Borrowers	Businesses Adjusting to COVID			Business and Landlords with Lease		
Uses of Loan	Primarly Working Capital but can be Imporvements, M&E, Inv. and			Items within lease, which may in Leasehold Improv., Rent, Util., Taxes		
Loan Min:	Min - $5,000			Min - $5,000		
Loan Max:	$100,000			$50,000		
Interest Rate*	0% to 4% (normally 4%)			0% to 4% (normally 4%)		
Maturation Period	Up to 3 times Asset Life up to max			Up to 3 times Lease Term up to		
Amortization Period	Up to 3 times Asset Life up to max			Up to 3 times Lease Term up to		
Deferred Payments	0 to 12 months			0 to 12 months		
Loan Convertibility	Original loan paramers above m converted/modified/triggered to a ne terms, when shifting between capac experiencing changes in DSCR			Original loan paramers above m converted/modified/triggered to a ne terms, when shifting between capac experiencing changes in DSCR		
Credit Elsewhere not available*	No letter required (normally req			No letter required (normally req		
Loan Portfolio Leverage*	Could be 100% (normally 33%			Could be 100% (normally 33%		
Loan as % of Project Cost*	Can be sole-lender up to 100% (norma			Can be sole-lender up to 100% (norma		
Equity as % of Project Cost	as low as 5%, or 2.5% for DBE (normally			as low as 5%, or 2.5% for DBE (normally		
DSCR of Proforma	1.00, plus of Proforma Income St			1.00, plus of Proforma Income St		
LTV	not applicable			not applicable		
Collateral	all assets purchased through loan, o available, otherwise none for loans le			Mortgage on Property (Equity L		
Personal Guarantee:	depends on collateral secured			depends on mortgage		
Disbursements	Full amount at closing, with new dis conversion/modfication when enterin Stage and/or at the election of borr			Full amount at closing paid to landlor depending on borrower.		
Loan Approvals	$50,000 and under administrativel otherwise Council approval nee			Administrative only.		

* - This parameter allowed only during "disbursement period" when all
For Inidividualized loans see RLF Plan loan parameters

EXISTING RLF - OVERVIEW

The City's existing RLF Program was initially capitalized in 1988 with $769,232 - $500,000 from the

EDA and $269,232 in matching funds from the City. The most recent report submitted by the City is provided in the attached. As of June 30, 2020, the capital base has grown to $1.28 million through net income ($946,634.79) minus losses ($436,444.33). In total, the RLF Program has loaned over $4.8 million to 47 different projects in the industrial, commercial, and service industries and has assisted with the creation/attraction of 2,118 jobs. City loans of $4.8 million were leveraged with $59.4 million of other funds and has resulted in an overall investment of $64.2 million. On average an RLF loan project represents an investment of $1.3 million, 45 jobs, and a City loan of $103,000. For every $1.00 loaned by the City an additional $12.35 was leveraged.

Over the past five years the City's deployment of its RLF Funds went from 23% to 82%, which outpaces the average deployment of peer RLFs at 62%.

Date of Report	9/30/2015	9/30/2016	9/30/2017	12/31/2018	12/31/2019	6/31/2020
Fund Deployment	23.45%	26.95%	31.35%	43.59%	57.17%	82.37%

The City's existing RLF Plan was approved by Council on March of 2016. Given the required five-year update, staff will bring to Council an update of the existing RLF in February 2021 and report on the efficacy of the new CARES ACT RLF and propose changes as needed.

NEW VS EXISTING RLF PLANS

A table comparing the existing and new RLF Plans is attached and below is a brief description of key differences.

The new RLF will have EDA administrative waivers allowing the City to provide accessible, attractive, flexible, sole-source financing during the disbursement period. The disbursement period ends when all funds are deployed or two years, whichever comes first.

In addition to individualized loans, the new RLF is designed with standardized loan products to meet specific needs and allowing for strategic and quick deployment. Thus the approval process for standardized loans have been streamlined for the following reasons: a) the City will primarily be the sole lender and not rely on the approval of other lenders, b) most loans will be small ($50,000 or less) but higher in volume with 50 or more closings within a year, c) technology will be used to speed up and automate some processes, and d) loans $50,000 and under would be administratively approved rather than requiring Council approval which will shorten the approval time by three weeks.

FINANCIAL IMPACT: There is direct financial benefit of $129,000 the City will receive for administering the program. The deployment of $1.29 million to business will provide much needed funds to sustain business operations.

NEIGHBORHOOD CONCERNS: The Loan Review Panel reviewed and supported the use of the Business Capacity Conversion (BCC) loan and the Business Two Landlord (B2L) Partnership Loan as part of the new RLF Plan.

IMPACT IF APPROVED: More capital in the form of gap financing will be available for businesses adversely affected by COVID-19. The City would also have a greater capacity to support social and economically disadvantaged business enterprises. EDA has provided preliminary approval of the suggested changes but will need official approval of the RLF Plan from City Council.

IMPACT IF DENIED: The capacity to grow jobs and drive investment would be reduced.

ALTERNATIVES: No alternatives are recommended.

EEO CERTIFICATION NUMBER: Not Applicable