CITY OF RANCHO CORDOVA

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CALIFORNIA

CONCURRENT MEETING
CITY COUNCIL/SUCCESSOR AGENCY TO THE COMMUNITY REDEVELOPMENT AGENCY (CRA)/RANCHO CORDOVA FINANCING CORPORATION (RCFC)

City Hall
2729 Prospect Park Drive, Rancho Cordova

Tuesday, September 15, 2015

5:30 PM – Special Meeting
David B. Roberts Council Chambers

AGENDA

1. WORK SESSION - CALL TO ORDER/ROLL CALL

Council Members Budge, Sander, Skoglund, Terry and Mayor McGarvey.

2. PUBLIC COMMENT

At a special meeting, citizens wishing to address the Council for any matter on the agenda may do so at the time the matter is discussed. Under the provisions of the California Government Code, the City Council is prohibited from discussing or taking action on any item not on the agenda.

3. SPECIAL MEETING ITEM

3.1 **Subject:** Economic Development Revolving Loan Fund and Business Fee Incentive.
Recommendation: Staff recommends the City Council have a discussion and provide policy direction on potential economic development programs.
Result of Recommended Action: Staff will incorporate Council policy direction to establish program guidelines for a business Revolving Loan Fund and Fee Incentives that will be brought back to Council for consideration at a future Council meeting.
Staff Report: Amanda Norton, Economic Development Manager.
Advances Goal: 6.

4. ADJOURNMENT

ADDITIONAL INFORMATION

In compliance with the Americans with Disabilities Act, if you need a disability-related modification or accommodation, including auxiliary aids or services, to participate in this meeting, please contact the City Clerk's Office at (916) 851-8720 at least 48 hours prior to the meeting.

CERTIFICATION OF POSTING OF AGENDA

I, Mindy Cuppy, MMC, City Clerk for the City of Rancho Cordova, declare that the foregoing agenda for the Tuesday, September 15, 2015 Special Meeting of the Rancho Cordova City Council/Successor Agency to the CRA/RCFC was posted and available for review on Thursday, September 10, 2015 at City Hall of the City of Rancho Cordova, 2729 Prospect Park Drive, Rancho Cordova, California, 95670. The agenda is also available on the city website at www.cityofranchocordova.org.

Signed Thursday, September 10, 2015 at Rancho Cordova, California.

Mindy Cuppy

Mindy Cuppy, MMC, City Clerk

MEMORANDUM

DATE: September 15, 2015

TO: Honorable Mayor and Council Members

FROM: Amanda Norton, Economic Development

SUBJECT: **ECONOMIC DEVELOPMENT REVOLVING LOAN FUND AND BUSINESS FEE INCENTIVE**

RECOMMENDATION

Staff recommends the City Council have a discussion and provide policy direction on potential economic development programs**.**

RESULT OF RECOMMENDED ACTION

Staff will incorporate Council policy direction to establish program guidelines for a business Revolving Loan Fund and Fee Incentives that will be brought back to Council for consideration at a future Council meeting.

BACKGROUND

The City Council awarded the Economic Development Department funds to be utilized to increase the economic vitality in the City. City Council recommended staff develop a revolving loan fund, a business fee incentive, and a sign and façade grant program. The Economic Development Department, in conjunction with the City Attorney's Office has drafted program policy guidelines for the Revolving Loan Fund (RLF) and the Business Fee Incentive (BFI) programs. In the drafting of the projects large policy questions have arisen where staff is seeking policy direction.

The below two programs are coming before Council first as there have been two requests to utilizing the funds.

REVOLVING LOAN FUND PROGRAM

Below are policy questions that relate to the Revolving Loan Fund.

- Loan amount. All loans over $100,000 are required to have a public hearing before Council in compliance with Assembly Bill 562. For loans below $100,000 would the Council prefer that all loans come before Council or is there a loan amount where by the City Manager would have authorization to approve the loan? The amount, for example, could be $20,000 or $50,000.

- Project type. Staff anticipates that we will receive various requests for funds under the RLF as business owners are creative by nature. Are there particular types of projects, such as loans for lines of credit, working capital or tenant improvements that should always come before the City Council?

- Unsecured funds. Staff will receive applications requesting unsecured funds, these may be for tenant improvements. What is the Council's risk tolerance for unsecured funds? Could these funds be a portion of the overall portfolio? Is there a ration or amount that could be unsecured? Could it be tied to length in business and expansion purposes only?

- Administration of program. Staff is proposing that all underwriting be completed by a third party. Would Council like to see all aspects of this program administered by the third party? Or would the preference be for a portion of the administration be conducted with City Staff?

BUSINESS FEE INCENTIVE PROGRAM

- Development Impact Fee Reduction and Fee Deferral Loans. Staff is proposing both a fee reduction and fee deferral loans. As anticipated, most businesses will request a reduction before asking for a loan. Is there a set criteria Council recommends staff utilize when reviewing an application for a fee reduction or deferral? For example, Do we base the criteria on a percentage of new employment or sales tax vs amount of assistance requested? Should the decision be made on certain dollar amount, regardless of the 20% of total fees?

    - All reductions or loans over $100,000 will be required to go to Council. For amounts below $100,000, is there a dollar amount Council feels comfortable with approval at the City Manager level? Is $100,000 too high? Is the amount $20,000, $50,000 or some other amount?

- Project type. Are there particular types of that should always come before the City Council? Are there project types that should always be approved by the City Manager?

- Targeted industry sectors. Are there any specific industries Council would like see targeted?

FISCAL IMPACT

Funder from the Community Enhancement Fund will be utilized to seed both the Revolving Loan Fund and the Business Fee Incentive Funds.

ATTACHMENTS

1. Revolving Loan Fund
2. Business Fee Incentive

ATTACHMENT 1

RANCHO CORDOVA ECONOMIC DEVELOPMENT

REVOLVING LOAN PROGRAM

PURPOSE

The Rancho Cordova Economic Development Revolving Loan Program, ("RLF") is designed to promote development of new businesses, the expansion of existing businesses that will fill vacant, existing business space, and support enterprises that will hire or retain employees in the City. The program is also intended to enhance the City's competiveness in attracting businesses that will contribute to the local economic prosperity and further enhance the existing quality of life within the city by providing high quality services and products to its residents by providing financial resources that may be difficult to find funding elsewhere.

In this context loan repayments received are "revolved" or "recycled" to be re-loaned again in this program. Therefore, the initial funds that capitalize the program shall be available again to assist more businesses to create additional jobs and provide additional assistance beyond the initial loans.

TARGET MARKETS

The programs funds will be targeted to businesses that have the greatest potential for long-term job creation and /or retention and will provide support to businesses that fall under one or more of the following categories:

1) Businesses that fill vacant or existing commercial space.
2) Businesses that create new sustainable and livable wage jobs.
3) .
4) Businesses that retain and attract high quality employment opportunities.
5) Businesses that provide unique or underrepresented services/goods to diversify the local economy.
6) Businesses that generate new taxable sales or Transient Occupancy Tax revenue.

TYPES OF LOANS

The City will consider, at its discretion, to provide the following loan options to business owners:

- **Working Capital and Inventory Purchase** – for costs of business operations
- **Machinery/Equipment** – for the acquisition of machinery and equipment
- **Fixed Assets** – for leasehold improvements, renovations, expansion of a structure, or purchase of fixed assets
- **Façade Improvements** – for improving the exterior appearance of a business
- Property Acquisition or Lease Payments
- Line of Credit – for business operations

The City will not consider loans to:

- Acquire equity in a private business
- Pay interest payments on existing debt
- Refinance existing loans unless it is to assist in relocating the business to the City and meets one or all of the City's Target Markets.
- Provide funds to invest in but not actively own or operate the subject project, borrower cannot be an investor.

GENERAL QUALIFYING CRITERIA

Loan applications will only be considered if the applicant meets one or more of the City Target Markets. All loan applications shall include the following:

a) Information demonstrating the applicant has the ability to operate a business successfully,
b) Information demonstrating that the applicant has enough borrowing capacity to operate on a sound financial basis
c) information demonstrating that that the loan request is of sound value and required to grow the business,
d) A business plan demonstrating an intent to operate the business within the City limits for not less than five (5) years,
e) the ability to repay the loan
f) information regarding the availability of other funding sources available and which the applicant could utilize in place of a RLF loan.
g) Identification of all collateral available to secure the loan..

Loan approval and funding will depend upon the benefits of each project as well as the availability of designated funds. The source of funding for the RLF may be designated initially from, but not limited to, the Community Investment Fund (Measure H). Loans through this program shall be available only to the extent that funds allocated for the program are available.

GENERAL LENDING TERMS

RLF loans may be made to qualifying businesses on a case by case basis and will be subject to, but not limited to, these general terms:

- **Loan Size**: There is no minimum loan amount. All loan requests in the amount of $100,000 or more will require the City to provide a public report regarding the loan and hold a noticed public hearing, prior to considering approval of the loan. The public report will include Information regarding the loan terms, the borrower's name and address, the purpose of the loan, projected tax revenue resulting from i the making of the loan, and the number of new jobs expected to be created as a result of the making of the loan. This information will be posted publically on the City's website.

- **Interest Rates**: Interest rates on loans will be fixed. The rates will be set based on the needs of the loan but will generally be equivalent to of the Wall Street Journal plus 2% at the time of the loan approval.
- **Loan Fee**: A loan packing fee of $250 and any direct cost incurred in loan processing and closing such as recording fees and escrow charges. For loans in excess of $100,000 there will be a 0.25% loan fee plus loan processing costs as outlined.
- **Collateral Requirements**: To the extent possible all loans will be secured by collateral. Types of collateral may include:
    - Liens on real property,
    - Deeds of Trust
    - Liens on machinery, equipment, or other fixtures,
    - Personal and/or corporate guarantees, as appropriate and
    - Other collateral, as appropriate.
- **Loan Terms**: The terms will be set based on the assets being financed and demonstrated need of the loan but will generally be based on the loan type - Working Capital loans 3-5 year maturity, Purchase Machinery and Equipment 5-7 years, Real Estate Financing 10-15 years.
- **Prepayment**: Loans may be prepaid without a penalty 12 months after loan closing. A 5% fee will be charged if the loan is prepaid during the first 12 months, unless borrower can demonstrate circumstances that require the debt be paid off.
- **Job Creation/Retention**: There is no minimum or maximum requirement; however more priority is given to loan requests that can demonstrate the creation or retention of full time and part-time jobs.
- **Sales/Property Tax and Other Economic or Community Benefit:** There is no minimum or maximum requirement; however priority will be given to loan requests that can demonstrate the generation new Community and Economic benefits to the City.

  Prevailing Wage and Other Requirements: Receiving a loan from a local jurisdiction may trigger California prevailing wage requirements on any construction, capital improvements, or other applicable activities. The application of prevailing wage requirements will be examined for each loan application. In the event that prevailing wages are required, it shall be the borrowers responsibility to fully comply with all such requirments. Borrowers shall also be responsible for compliance with all other laws that apply to the application of the loan funds or the business for which the funds are loaned.

GENERAL APPLICATION AND APPROVAL PROCESS

Any business seeking a RLF loan and meeting the above criteria should submit a written request to the City's Economic Development Department and should include the following information:

a) Type of business

b) Location

c) Projected number and types of jobs that will be created and the basis for that projection

d) Projected taxes and Transient Occupancy Tax (if applicable) that will be generated and the basis for that projection

e) Any other information that will further define the financial benefits and overall enhancements to the community that will be created by the project

f) Specify the loan amount requested and provide a description of total project costs and other funds that are available to complete the project (e.g. bank loan, private investment, and personal equity.)

g) All RLF applicants will be subject to the City's financial credit review which will be conducted by an independent consultant contracted by the City and must provide for that review:.

  - A business pro-forma cash flow that details financial projections for a five year period.
  - For a start-up business or those in business for less than 1 year,a business plan.
  - If a build to suit, all signed leases with tenants.
  - If business is to be operated out of leased spaceasigned letter of intent from landlord or a lease, if available.

h) All applicants will pay a non-refundable $xxx application fee.

i) Based on the information provided in the application and financial review, the final agreement with the City will require annual monitoring to include reviewing sales data, employment records or other information to ensure ongoing financial stability, and verify anticipated jobs and/or tax revenue have been generated.

- Upon receipt of a request, the City's Economic Development Department will review the request and verify that the general qualifying criteria have been met. The financial review will be completed to evaluate necessity and determine if funds are available.
- City staff and a third party Consultant shall be responsible for reviewing loan applicationa and making recommendations to the City's Economic Development Loan Advisory Committee (EDLAC).
- The EDLAC will shall be responsible for reviewing funding application requests and making recommendations to City staff. The EDLAC shall be comprised of the City Manager, Director of Finance, and Council Member.
- After the EDLAC consideration and review, the committee will be responsible for loan approval or denial.
- Upon approval by the EDLAC, the presiding officer shall sign the EDLAC meeting minutes attesting to the approval the City staff will prepare for the loan closing.
- The Borrower shall sign all the necessary documents and agreements, as prepared by City's Attorney.
- The City shall prepare the loan closing documents; prepare title and lien searches, and UCC-1 filings, if appropriate. The City Attorney or designated attorney shall review all agreements and documents as necessary.

LOAN MONITORING

ATTACHMENT 1

The City or its designee will monitor the RLF and maintain the following procedures and guidelines.

- Two separate loan files shall be maintained. The first is the legal file which holds all the original loan documentation. This file shall be kept in the City's fireproof vault for safekeeping. The second is a credit file which shall contain the day-today administrative records of the loan. At a minimum the legal file shall include and as applicable to each loan:
    a) Note
    b) Loan Agreement, including Non-Financial Employment Plan
    c) Deed of Trust
    d) General Security Agreement
    e) Personal Guaranty
    f) Corporate Guaranty
    g) Subordination Agreement
    h) Hazard Insurance Policy and Agreement
    i) Certificate of Security
    j) Opinion of Counsel
    k) Inter-Creditor Agreement
    l) Lease Agreement

- The credit file shall contain, at a minimum, the loan application and financial information associated with the application with the application, credit memo, Loan Advisory Committee recommendation, final City approval, disbursement records, reports of site visitors, updated financial information provided by borrower, job creation/retention data, etc.

- A reporting system shall be established for each loan and the loan portfolio as a whole. The report should be updated at least annually. The report shall be used by the City to monitor the loans and identify problems. The report shall contain the following:

    Fund Report Balance: A monthly summary of the beginning fund balance, principal and interest recaptured during the month, disbursements made during the month and funds committed but not yet disbursed, and amount remaining in the Business Loan Programs which are unencumbered. The monthly receipts from the lender on each loan shall serve as the basis for this report.

    Portfolio Summary Report: A quarterly summary of the total loans outstanding and authorized loans. The report shall include a quarterly statement on each loan, prepared by the lender. The quarterly report shall include the last payment date and loan balance. Delinquent loans shall be identified and a summary of action to date to collect delinquent loans shall be included.

    Employment Report: A semi-annual report on each project detailing the jobs created/retained, and those hired that meet the Targeted Income Group.

    Loan Loss and Delinquent File: A list of all loans that have been classified as uncollectible and a summary of foreclosure procedures to date on the loan. Loans that are delinquent shall also be listed, along with a summary of recommended steps, and steps taken to date.

Tickler File: A listing of the current loan portfolio and dates for receipt of financial statements, employment information, renewal of UCC-1 filings, review date, dates for insurance renewal and other information.

DELINQUENCES, DEFAULTS, AND FORECLOSURES

The City acknowledges that circumstances beyond the borrower's control may temporarily limit their repayment ability. The City of Rancho Cordova desires to be flexible and accommodating to our business clients. Therefore, if for any reason a business cannot make their loan payments in accordance with the terms and conditions of their agreements, the City shall be so notified in writing by the client.

Although the City may accommodate a crisis that restricts the borrower's repayment ability, it should in no way be construed that the loan is not due and payable in a timely fashion. All loans made by the City of Rancho Cordova Economic Development RLF Program shall be repaid in accordance with the terms and conditions of the loan agreement.

- **Twenty (20) Day Delinquency Notices**- The City or its designee will send the borrower a letter noting the delinquent payment amount plus any applicable late charges. This letter will be followed by a telephone call reminding the borrower of the loan amount and due date.
- **Thirty (30)- Sixty (60) Day Delinquency Notices**- The City or its designee will send a registered letter noting the delinquent amount plus any applicable late charges. In this letter, a date and time will be set for a meeting between the borrower and the City appointed contact. At this meeting a letter that addresses the following shall be provided by the borrower.
  - a) Explanation of delinquency.
  - b) Any changes in the business' fiscal status that limits repayment ability.
  - c) Loan amount in arrears along with a specific proposal to bring loan payments current.

  At the conclusion of this meeting the following will be determined: How and when the loan will be brought current. (To be provided by the borrower in writing within five calendar days of the meeting.

- If it is determined by Economic Development staff, consultant and/or designated underwriter and the borrower that a temporary payment deferment is needed, the borrower shall submit said request in writing to Staff and then forwarded to the EDLAC for consideration.

- The EDLAC can approve of a temporary loan payment deferment or interest only payment for a period not to exceed a total of nine (9) months based on a mutually acceptable repayment proposal.

- Should a mutually acceptable repayment proposal not be reached, the EDLAC, in collaboration with City Staff, the City's underwriting designee and/or consultant, will bring the matter before the full City Council for review and consideration.

- If the borrower does not appear for the 30-60 day delinquency meeting and does not contact the Economic Development Staff or its designee, staff shall take this matter before City Council for review and consideration.

ATTACHMENT 1

- All foreclosure proceedings shall be initiated by Resolution of the City Council authorizing and directing the Mayor to execute a Notice of Default.

2516613.1

RANCHO CORDOVA BUSINESS FEE INCENTIVE PROGRAM

PURPOSE

The Rancho Cordova Fee Incentive Program is designed to promote development of new businesses and the expansion of existing businesses that will contribute to the local economic prosperity. The program is also intended to enhance the City's competiveness in attracting businesses that will further enhance the existing quality of life within the city by providing high quality services and products to its residents.

TARGET MARKETS

The programs priority is to provide support to businesses that fall under one or more of the following categories:

1) Businesses that fill vacant or existing commercial space.
2) Businesses that create new sustainable and livable wage jobs.
3) Businesses that provide unique or underrepresented services/goods to diversify the local economy.
4) Businesses that generate new taxable sales or Transient Occupancy Tax revenue.
5) Businesses that are desired by the neighboring community (determined by neighborhood meeting requested by City).
6) Businesses that fall within one or more of the City's targeted industry sectors: (note: list to be expanded with Council direction)
    a. Green or Clean Technology Development
    b. Super Markets and Other Grocery (except Convenience)Stores
    c. Personal Services

Business Fee Incentives

The City will consider, in its discretion, the business fee assistance for certain building and/or development fees for industrial and commercial projects. Each project will be reviewed on a case-by-case basis and incentives will be dependent on the type of project and its capital investment, as well as the projects ability to address one or all of the City's Target Markets listed above. The City may provide the following incentives as its discretion:

I. Development Impact Fee Reduction

II. Development Impact Fee Deferral Loans

The City will not consider the business fee incentive program for businesses or developments that do not satisfy the intent of the program and meet one or more of the City's Target Markets.

Incentives offered will depend upon the benefits of each project as well as the availability of designated funds.

The City may annually designate funds available for the business fee incentive program from, but not limited to, the Community Investment Fund (Measure H). Assistance through this program shall be available only to the extent that the City has allocated funding for the program.

Upon the approval of any fee assistance, funds designated for the business fee incentive program shall be transferred to the funds to which fees would have been paid without the granting of the business fee assistance at the time that such fees become due.

GENERAL QUALIFYING CRITERIA

- All assistance will be considered on a case-by-case basis.
- Applicants must document job creation, sales tax revenues, property tax revenues, the target market their business or project will address and/or other economic and community benefit.
- Business must plan to operate the business in within the City limits for not less than five (5) years, if less than five years the incentive will need to be repaid based on a prorated amount or paid in full per terms of applicable incentive program received.
- A startup business or a business that has operated for less than one year must provide a business plan including a descriptive financing plan.
- Business assistance requests shall not exceed 20% of total required fees and will be subject to applicable tax and legal requirements as applicable by type of assistance.
- Accepting assistance from a local jurisdiction may trigger California prevailing wage requirements on any construction, capital improvements, or other applicable activities.. In the event that prevailing wages are required, the recipient of the assistance will be responsible for compliance all prevailing wage requirements.
- All requests exceeding $100,000 will require the City to review, hold hearings, and report the incentive assistance. Information regarding the incentive recipients will include: name, address, purpose of incentive, projected tax revenue resulting from incentive assistance, and number of new jobs created. This information will be posted publicly on the City's website.

GENERAL APPLICATION AND APPROVAL PROCESS

- Any business seeking business fee incentives and meeting the above criteria should submit a written request to the City's Economic Development Department and should include the following information:
  - a) Type of business or development
  - b) Location
  - c) Projected number and types of jobs that will be created
  - d) Projected property tax, sales tax and Transient Occupancy Tax (if applicable) that will be generated
  - e) The target market being addressed and a description of any other information that will further define the financial benefits and overall enhancements to the community that will be created by the project

f) Specify the incentive amount requested and provide a description of total project costs and funds that are available to complete the project (e.g. bank loan, private investment, and personal equity.)

g) All Business Fee Incentive applicants will be subject to the City's financial credit review which will be conducted by an independent consultant contracted by the City.

§ Provide a business pro-forma cash flow that details financial projections for a five year period.

§ For a start-up business or those in business for less than 1 year –provide a business plan.

§ If a build to suit, provide all signed leases with tenants.

§ If business is to be operated out of leased space – proved signed letter of intent from landlord or lease if available.

h) All applicants will pay a non-refundable $xxx application fee.

i) Based on the information provided in the application and financial review, the final agreement with the City may include requirements for post-award monitoring and reporting to include reviewing sales data, employment records or other information to ensure anticipated jobs and/or tax revenue has been generated.

- Upon receipt of a request, the City's Economic Development Department will review the request and verify that the general qualifying criteria have been met. The financial review will be completed toevaluate necessity and determine if funds are available.

Based on the financial review, the Economic Development Department may prepare a proposed incentive package and draft a Business Fee Incentive Agreement for the City Manager and City Attorney review and approval. For Fee Incentives packages exceeding $100,000, the City Manager prepare the required reports and will make a recommendation and present it to Council for approval at a noticed public hearing.

If approved by the City Manager or by council, the Business Fee Incentive Agreement will be returned to applicant for signature.

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Economic Development

Revolving Loan Fund & Business Fee Incentive Programs

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Community Enhancement Fund

- Economic Development Department is tasked with creating 2 incentive programs:
  - Revolving Loan Fund (RLF) Program
  - Business Assistance Program
    - Business Fee Incentive (BFI) Program
    - Commercial Sign and Façade Program
- Today we will discuss the RLF and the BFI and will bring the Sign and Façade program back at a later date.

Revolving Loan Program

- Direction on large policy questions:
  - Loan Amount – Is there an amount below $100,000 that the Council feels should always have Council review?
  - Project Type – Are there any types of projects that should always receive Council review?
  - Unsecured Funds – What is the Council's risk tolerance for unsecured funds?
  - Program Administration – Preference for loan servicing in house?

Business Fee Incentive

- Direction on large policy questions:
  - Project Type – Are there any types of projects that should always receive Council review?
  - Multi-Family – Should multifamily projects be considered for the incentive?
  - Fee Reduction vs Fee Deferral Loan – Should we have set criteria for the reduction or deferral?
    - Is there an amount below $100,000 that the Council feels should always have Council review?
  - Target Industry Sectors – Niches? NAICS Code? Community need?

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