CITY OF WASHINGTON

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MEMORANDUM

TO: Finance and Personnel Committee
FROM: Jon R. Oliphant, AICP, Planning & Development Director
SUBJECT: RLF Update
DATE: August 18, 2017

Summary: A possible revolving loan fund (RLF) project with IVP would utilize the remainder of the original USDA/bank leverage funding. If that occurs, staff would suggest considering the allocation of additional funding for the continued availability of non-construction gap financing. Such funding would also make an RLF available throughout the City, as it can only be used for properties east of Ernest Street.

Background: The City was made eligible for a Rural Business Development Grant (RBDG) from USDA following the 2013 tornado. Ordinarily, the City is not eligible for USDA funds because it exceeds the population threshold and since it is not considered to be rural. USDA approved a $99,000 RBDG in late 2015 along with $40,000 in leverage contributions from four city banks. The RLF can be utilized within the USDA-eligible areas for businesses that are located east of Ernest Street. It is intended to serve as gap financing for the retention of businesses through non-building or real estate improvements such as working capital, inventory, and/or machinery/equipment purchases.

To date, one project has received funding: Plaza Lanes for the purchase of laser tag equipment in association with its building expansion project. Plaza Lanes was approved by USDA for a $54,000 loan to be repaid over seven years at a 3% fixed interest rate (which is the set rate). An application has been submitted by IVP to utilize the $85,000 left from the original funding allotment to use towards the purchase of new machinery. USDA requires that the original funding be allocated within one year of approval with the grantee offered two one-year extension requests (the second of those two requests was recently granted by USDA). If USDA approves the loan, there would little funding to offer in the short-term until more of the payments replenish the fund. However, it would allow us to meet the obligation to utilize all of the original funding without having to offer any of it back to USDA and allow for more flexibility in the future.

Staff is interested in exploring the allocation of additional funding to increase that which would be available from the monthly loan payments. When the RLF was first established, interest rates continued to be quite low. It was understood that the 3% rate, while very competitive, would be more enticing once the prime rate began to rise. Now that it has slowly risen, there may likely be more demand for this gap financing.

A third business that is located east of Ernest and would not be eligible for the USDA funding has expressed an interest in RLF funding to go along with a building expansion project with the Enterprise Zone incentives. While staff does not have any of the particulars about what gap funding may be desired from this business currently, there would be little RLF financing to offer to any city business for many months if the IVP project is approved.

Staff has also asked the four banks that did not allocate funding (or were not in the city at the time) as part of the original RLF about their interest in contributing to new funding. Additionally, it may be worthwhile to ask the four banks that did contribute about their willingness to increase the funding availability of this program. General discussion is planned for the August 21 Finance and Personnel Committee meeting to receive feedback about potentially expanding this program.