

CITY COUNCIL REPORT

DATE: February 21, 2018

TO: Mayor, Vice Mayor, and Councilmembers

FROM: John Saltonstall, Business Retention and Expansion Manager
Stacey Brechler-Knaggs, Grants and Contracts Manager

CC: Barbara Goodrich, Shane Dille, Leadership Team

SUBJECT: Revolving Loan Fund

Background:

Following a Northern Arizona Council of Governments (NACOG) Economic Council Meeting, Councilmembers asked a few questions regarding the Economic Development Administration's (EDA) Revolving Loan Fund (RLF) grant:

1. Did the City of Flagstaff seek to transfer the portfolio to the City of Cottonwood?
2. Why has the City of Flagstaff not loaned the funds to Flagstaff businesses?
3. May the RLF monies be used to fund the Small Business Development Center?

Economic Development staff and Grant and Contract Management staff developed a history of the RLF which will follow brief responses to the questions above.

1. Did the City of Flagstaff seek to transfer the portfolio to the City of Cottonwood?

The City of Flagstaff did communicate with the City of Cottonwood prior to the 2016 RFP when City of Flagstaff staff sought to partner with a financial lending institution. City staff discussed the status of the RLF program; there was no discussion of "giving" the EDA RLF program to the City of Cottonwood.

2. Why has the City of Flagstaff not loaned the funds to Flagstaff businesses?

The RLF monies were intended to be used for revolving loans to businesses within the four county NACOG region. Requirements of the program however are not competitive with traditional lending at this time.

3. May the RLF monies be used to fund the Small Business Development Center?

The EDA Revolving Loan Fund Grant may not be used to fund operational / personnel costs for the Small Business Development Center. The EDA Revolving Loan Fund Grant is intended to provide access to capital for small businesses. A small administrative fee is allowed for the administration, servicing, and reporting of the EDA Revolving Loan Fund Grant.

Revolving Loan Fund History and Current Status:

NACOG was the second managing agency of the Economic Development Administration Revolving Loan Fund Grant Project Number 07-39-02823. The Arizona Department of Commerce managed the grant from the initial award in the 1980's until the Department of Commerce transferred the portfolio to NACOG in the mid 1990's. At the time of transfer, there were no outstanding loans. In 2011, NACOG began the process to transfer the portfolio to the City of Flagstaff.

Staff brought the transfer of the portfolio to Council for approval in 2015. Council did question why we would manage a program that covered all four counties covered by NACOG. Staff responded by stating that the original grant was intended to service all Arizona counties except for Maricopa and Pima counties, and that staff had arranged for the grant to cover the smaller geography. Council approved the transfer of the EDA RLF portfolio in 2015.

Following Council's approval to accept the transfer of the portfolio, staff then worked to develop an RFP to identify a financial lending institution to assist with the servicing of the loans. The RFP was opened January 10, 2016 and the process concluded on February 23, 2016 without any responses.

Staff contacted the EDA to learn if there were any other similar RLF grants operating in Arizona that may serve as good examples of partnering with financial lending institutions. The EDA directed staff to PPEP Microbusiness & Housing Development Corporation (PMHDC) in Tucson. Staff engaged PMHDC in conversation regarding their potential interest in partnering with the City of Flagstaff to service the loans from EDA RLF program. PMHDC indicated that they were very interested in working in Flagstaff and that they would be interested in managing the portfolio in its entirety. As the conversation progressed, staff learned that SEDI had interest in managing the program. With two interested parties, staff convened with the EDA to learn the best course of action. The EDA and City of Flagstaff Grants and Contracts Management determined that the best course of action would be a Request for Statement of Qualifications process.

The RSOQ to transfer the portfolio was posted on November 30, 2017. Statements were due at 3:00 PM on Friday, December 22, 2017 and two proposals were received. The RSOQ evaluation team reviewed the two proposals on January 17, 2018. On January 24, 2018 the City submitted a request to EDA for concurrence to transfer the funds to the top ranked firm contingent upon council approval. Upon EDA's concurrence, staff is prepared to bring Council an agreement to transfer the portfolio to a qualified organization that has the demonstrated capacity to work across jurisdictions to service targeted populations. The transfer is not intended to change the geography of the service area, so that the RLF funds will stay in the four county NACOG service area.

RECOMMENDATION / CONCLUSION

This report is for information only.