

Grow Olympia Fund (GOF)

Option: Use of PY 2015 CDBG funds to supplement PY 2014 Grow Olympia Fund

Summary:

Additional PY 2015 CDBG funds could supplement the existing **Grow Olympia Fund** as an auxiliary, stand-alone loan fund. As with the existing GOF, National Development Council (NDC) would continue to provide outreach to potential borrowers and underwriting services. However, City staff would provide all loan servicing to the auxiliary fund. **Please note:** This PY 2015 round of funding will not be able to be leveraged four to one.

Background: In December 2014, the City entered into a two-year contract with NDC to deliver a small business loan program in Olympia. City CDBG funds pay NDC for the service delivery costs to manage the GOF, while NDC accesses \$250,000 in other monies to directly fund the actual loans. NDC's affiliate, the Grow America Fund (a licensed SBA7a non-bank lender), provides a loan guarantee that is leveraged 4:1, resulting in a \$1 million GOF fund. Grow America Fund provides the loans with its own capital and that of its partner financial institutions, backed by the SBA guarantee.

Because the Grow America Fund (GAF) consists of funds pooled from a number of sources, and adding CDBG funds directly would create numerous additional regulatory issues, it will not be possible to put additional City CDBG funds directly into to this SBA loan fund.

Current NDC Contract for Grow Olympia Fund: The City contracts with NDC for services that fall into one of the following activities:

- 1) A portion is earned quarterly for overall loan fund administration
- 2) A portion is earned on a per-loan basis (performance fee) as a percentage of each loan that the Grow America Fund makes.

Proposed PY 2015 Auxiliary GOF Program: The City can use CDBG funds to capitalize a Small Business Revolving Loan Fund (RLF). This fund would remain under the umbrella of the GOF, and be used for the same purpose, but would be an auxiliary fund that is administered by the City and accounted for separately from the existing GOF. Below is a basic description of the typical program structure.

- City acts as lender to small businesses, using CDBG as the loan source.
- City sets the loan terms.
- Use of CDBG must meet the following three requirements:
 - **CDBG-Eligible activity** - Special Economic Development (businesses that are looking to locate or expand in Olympia) and need capital for property acquisition, purchase of machinery & equipment or (less likely) for working capital. Care should be taken to avoid use of CDBG for construction or tenant improvements
 - **National Objective** – borrowers must be creating new jobs or retaining existing jobs that meet the 51% Low- to Moderate Income (LMI) threshold
 - **Public Benefit Standard** – Business must create or retain at least 1 job per \$35,000 of CDBG assistance

- City must also still meet annual spend-down targets established as part of its CDBG program, so it would be necessary to make loans of the RLF funds by June 30, 2015
- City would have the responsibility of loan administration, loan servicing and compliance monitoring through the loan term
- NDC can provide assistance in outreach and financial underwriting through its existing technical assistance contract (similar to the HUD Section 108 loan fund)
- NDC and its affiliate GAF can assist in identifying potential eligible borrowers through the work that is already being done to deliver the Grow Olympia Fund (borrower may even be a GOF borrower needing a second loan from the City)
- With \$200,000 of capitalization, the RLF would likely be limited to one or two loans, thus administrative burden would be limited (costs for servicing the loans are an eligible use of the RLF proceeds)
- Requires HUD approval of RLF policies and operating procedures
- Once established and approved by HUD, City could continue to provide additional capitalization from CDBG or other sources as funds become available