WORKSHOP

<u>Workshop on Small Business Lending Guarantee Program</u>

Tuesday, February 28, 2012

1:30 – 3:00 p.m.

Leon County Board of County Commissioners' Chambers
Leon County Courthouse, 5th Floor

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Leon County
Board of County Commissioners

Workshop Cover Sheet

February 28, 2012

To: Honorable Chairman and Members of the Board

From: Vincent S. Long, County Administrator

Title: Approval to Participate in a Small Business Lending Guarantee Program

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County Administrator Review and Approval:	Vincent S. Long, County Administrator
Department/ Division Review:	Alan Rosenzweig, Deputy County Administrator
Lead Staff/ Project Team:	Ken Morris, Director, Economic Development & Business Partnerships

Fiscal Impact:
Should the Board adopt Option #1 for the County to participate in the small business lending guarantee program, staff will bring back a workshop ratification item of the Board's actions with a budget amendment to encumber $2.5 million for the guarantee program. These funds would remain under the auspices of the County, and would only be disbursed upon a loan default under specified circumstances addressed in this item.

Staff Recommendation:

Option #1: Accept staff report and direct the County Administrator to negotiate with the City of Tallahassee to mirror and finalize the small business loan guarantee program requirements for final approval by both Commissions.

Option #2: Upon completion of negotiations with the City, bring back an agenda item for final approval by the Board to encumber $2,500,000 for the guarantee program.

Report and Discussion

Background:

The lack of access to capital for small businesses was a problem identified by the County through the surveying of local business owners and leaders in preparation for the Board's workshop on September 13, 2011 to determine how the County could stimulate job creation. The workshop produced 36 recommendations as a framework for the Leon County 2012 Job Creation Action Plan. One of the Board's recommendations from that workshop included evaluating lending opportunities to encourage entrepreneurship.

Following the Board's adoption of the strategic priorities at the December 16, 2011 Commission meeting, Commissioner Maddox requested staff to bring back an agenda item regarding a program that would guarantee small business loans. Included as one of the Board's adopted Strategic Priorities is:

> *"Support business expansion and job creation, including the implementation of the Leon County 2012 Job Creation Action Plan, to include evaluating the small business credit program."*

On January 24, 2012, the Board accepted a staff report on the proposed loan guarantee program and scheduled a workshop for February 28, 2012 to review the proposal in greater detail (Attachments #1 and #2). The January 24th agenda item provided an overview of the U.S. Small Business Administration's (SBA) 504 Loan Program, the State of Florida's State Small Business Credit Initiative (SSBCI), and a proposal for the County and City to leverage the two programs by guaranteeing a portion of small business loans.

At the January 24th meeting, Commissioners also emphasized the importance of reviewing this program with local stakeholders in advance of the February 28th workshop, and inviting the stakeholders to be a part of the discussion at the workshop. On February 14, 2012, in coordination with the Economic Development Council (EDC), County staff hosted a forum of approximately 20 local stakeholders that included representatives from lending institutions, builders, real estate companies, the Leon County Clerk's Office, and the City of Tallahassee. Additional stakeholders were invited by staff and the EDC to attend the February 28th workshop.

Analysis:

Based on the Board's direction at the January 24th Commission meeting, staff has prepared this workshop item for the Board to further evaluate a proposal to leverage the investment of economic development funds within Leon County. Staff has been working with representatives from partner organizations including the EDC, the Florida Department of Economic Opportunity, and the Florida First Capital Finance Corporation to enhance the availability of capital for small businesses. This analysis provides a refresher on the SBA 504 Loan Program and Florida's SSBCI program in greater detail, along with illustrations to show how they would interact under the proposed guarantee program and recommended adjustments from the original proposal.

The proposal before the Board anticipates equal participation from the County and City for a combined $5 million in small business loan guarantees. To ensure a user-friendly program that encourages investment in the community, the County and City must adopt identical parameters for participation in the proposed guarantee program. To this end, the guidance and recommendations offered herein by County staff recognize the importance of partnering with the City in this endeavor, and offer the County Administrator the ability to negotiate any outstanding terms of the guarantee program before bringing back a final product to the Board for approval. Should the City decide against participating in this program, the Board could choose to proceed on its own by increasing the proposed financial commitment to fulfill the project scope or by maintaining the proposed financial commitment, which would marginally reduce the guarantee incentive.

The City conducted a cursory review of the proposal with two City Commissioners on February 25, 2012 through one of its Target Issue Meetings. City staff expects to present this proposal and their recommendations to the full City Commission on either March 14 or 28, 2012. City staff participated in the February 14th stakeholders' forum, and the County has been in communication with the City regarding many of the findings and recommendations presented in this item.

SBA 504 Loan Program

The SBA is a federal agency that offers a variety of loan programs for very specific purposes. The SBA's 504 Loan Program is a long-term financing tool designed to encourage economic development within a community by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. The SBA works with a local Certified Development Company (CDC), a nonprofit corporation which is set up to contribute to economic development within its community, to assist in securing financing through this program. Locally, the role of the CDC is carried out by the Florida First Capital Finance Corporation, which has a main office in Tallahassee, and assists small businesses throughout the state.

Under the 504 loan, the local CDC assists small businesses with securing a portion (up to 50%) of the loan through a private vendor. The CDC lends up to 40% of the loan, which is 100% guaranteed by the SBA. The private lender offering 50% of the total loan amount enjoys the senior lien position allowing it to be the first entity to collect on the loan. The borrower benefits from a long-term, fixed rate that is normally below market prices. In addition, the borrower is typically only required to put down 10% of the total project cost, which does not have to be cash. The project assets being financed are often used as collateral.

Table #1: Example of SBA 504 Loan

Entity	*Loan Amount*	*Percent of Project*
Private Lender	$500,000	50%
CDC (backed by SBA)	$400,000	40%
Business/Borrower	$100,000	10%

To be eligible for a 504 loan, a business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, a business qualifies as 'small' if it does not have a tangible net worth in excess of $15 million and does not have an average net income in excess of $5 million, after taxes, for the preceding two years. The 504 loan cannot be used for working capital or stockpiling inventory; but a temporary program under 504 allows for refinancing without a requirement for business expansion or job creation.

Generally, SBA 504 loans must be used for fixed asset projects, such as:

- The purchase of land; including existing buildings
- The purchase of improvements; including, grading, street improvements, utilities, parking lots and landscaping
- The construction of new facilities or modernizing, renovating, or converting existing facilities
- The purchase of long-term machinery, equipment, furniture, and fixtures
- Most soft costs are also eligible (attorneys' fees, architectural, engineering, surveys, etc.)

A borrower must occupy at least 51% of the space on a purchase, and at least 60% if the project is new construction. The project cannot be entirely income producing (i.e. relying on tenant income). The SBA program excludes businesses that generate more than 1/3 of their revenue from legal gambling, are primarily engaged in lending, are considered private or restrictive clubs, or are engaged in speculative real estate investment.

The maximum SBA loan amount and job creation criteria are based on the type of project. For example, a typical job creation project has a $5 million maximum loan amount and is required to create or retain one job for every $65,000 of SBA participation. A manufacturing or energy-related project may qualify for up to a $5.5 million SBA loan and would only be required to create one job for every $100,000 of SBA participation. Projects that meet certain public policy or community development goals determined by the SBA may qualify for up to a $5 million loan without any job requirements. These public policy goals include:

- Business district revitalization
- Expansion of exports
- Expansion of minority and women-owned businesses
- Expansion of veteran-owned businesses
- Rural development
- Businesses that bring new income into the community

<u>SBA Interim (or Construction Financing) Period</u>

Under an SBA loan, the 'riskiest' period of the loan is during the construction phase, which is also known as the interim period. In addition to the variables that could go wrong during the construction phase, lenders are at peak exposure, during this interim period, because of the time lapse between the bank issuing the business loan and the receipt of the SBA funds. The time difference is typically 180 days.

After acceptance of the terms and conditions of the "Authorization for Debenture Guarantee" by the small business, an interim loan from the participating lender funds the construction or acquisition of the fixed assets. The interim loan is usually equal to the bank's permanent loan amount plus the net proceeds from the SBA 504 loan (totals approximately 80-90% of eligible project costs). The closing for the SBA loan (debenture) is scheduled after the participating lender and the CDC have verified expenditures upon completion of the project. The loan documents are then executed by the borrower and forwarded to SBA for review prior to the debenture sale. This method of closing and delayed funding is referred to as a "dry closing."

After review and approval of the loan closing documents, SBA allows the debenture to fund. Debentures are pooled together and sold to private investors. The debenture sale generates the funds for the 504 Loan, which is remitted directly to the participating lender via wire transfer. This process is how the participating lender's construction or interim loan is paid down to the permanent loan amount. However, it has also been an ongoing point of concern for private lenders because they are financing 90% of the project during this interim period. The problem is rectified under Florida's 504 Bridge Loan Program, as noted in the next section of this analysis.

<u>State Small Business Credit Initiative</u>
As reported at the September 13, 2011 Workshop on County's Economic Development Activities and Survey of Local Business Leaders on Job Creation, the State of Florida received $97.7 million in federal seed money in August 2011 for small-business lending. This seed money was created by the federal Small Business Jobs Act of 2010 to help states strengthen existing loan and equity programs and/or create new programs that support financing small businesses. The primary objective of Florida's SSBCI Program is to leverage private capital for Florida's small businesses, which are defined as businesses with 500 employees or less. Therefore, this program could be leveraged with the SBA 504 loan.

Under the federal Small Business Jobs Act of 2010, Florida must show that $10 in new small business lending or investment was generated by every $1 in SSBCI funding (known as the "10:1 private capital leverage ratio"). Therefore, Florida's SSBCI funds must generate at least $976,623,490 in new private capital for small businesses. These funds would be allocated through the three programs: the Florida Capital Access Program, the Florida Venture Capital Program, and the Small Business Loan Support Program. This workshop item, and the proposed local guarantee program, focuses specifically on the Small Business Loan Support Program that has been allocated $33.5 million of the full $97.7 million that the State of Florida received from the U.S. Treasury.

The Small Business Loan Support Program is designed to provide Florida small businesses with credit enhancement and other tools to better access commercial bank and export financing. Each transaction will require, at a minimum, a matching concurrent private capital investment, or other credit assistance. This program includes the following:

a. *Loan Guarantee & Loan Participation Programs:* The State will provide loan guarantees or loan participation of up to 20% of the total required financing. This program will target transactions ranging from $250,000 to $5 million. Loan terms may not exceed five years and interest rates would be negotiated.

b. *Direct Loan Program:* The State will provide a direct loan to a borrower for up to 20% of the total required financing. This program has the same constraints as the Loan Guarantee and Loan Participation Programs.

c. *504 Bridge Loan Program:* The State will provide a guarantee for the 40% of a 504 loan during the interim period (up to 180 days) prior to the bank being "taken-out" by the SBA (refer back to *SBA Interim [or Construction Financing] Period)* section of this analysis on pg 4). By removing the interim 90% financing risk for lenders, Florida's 504 Bridge Loan Program will make more capital available for small businesses. These loans will be processed by the Florida First Capital Finance Corporation in conjunction with Enterprise Florida. The maximum loan term under this program is six months.

d. *Export Loan Guarantees and Export Direct Loans:* The State will provide a loan guarantee or participation to exporting small businesses.

The Small Business Lending Guarantee Proposal is to combine the 40% loan from the SBA 504 Loan Program and the 20% guarantee under the SSBCI's Small Business Loan Support Program with an additional 10% loan guarantee from the County and City governments (5% each).

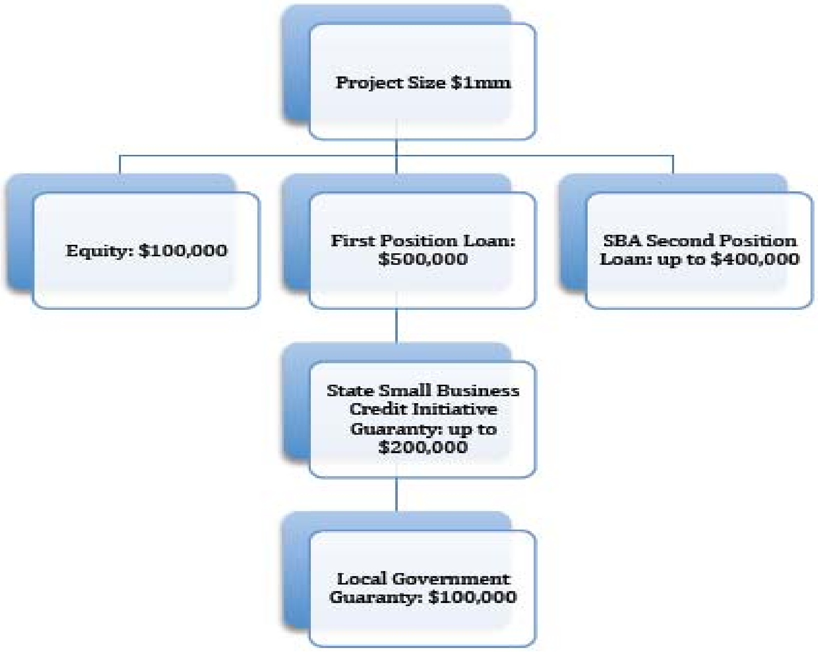
Small Business Lending Guarantee Proposal

A proposal was submitted to staff by Inkbridge (JT Burnette and Kim Rivers), a local financial consulting firm, seeking the County and the City to set aside $2.5 million each to guarantee a portion of private lenders' small business loans under the SBA 504 and SSBCI Programs. This proposed guarantee would amount to a maximum of 10% of the project cost or $500,000, whichever is less, for any given project meaning that $50 million in small business loans would have to be made in order to exhaust, or commit, all $5 million of the local funds. In the simplest terms, this proposal seeks to leverage federal, state, and local funds to maximize capital for small business lending with minimal risk of local funds.

It is important to remember that under this proposal, the County and City would be guaranteeing loans rather than directly lending to businesses. The proposal recommends that at least $1 million, or 20%, of the local guarantees be utilized for new capital projects thereby resulting in a minimum of $10,000,000 in new capital projects. While the local governments stand to benefit from the increased economic activity associated with small business lending, the funds used to guarantee these long-term loans would be encumbered over the life of the loan or a predetermined period of time approved by the Board.

On Page 3 of this item, Table #1 illustrates a typical SBA 504 loan and the amount of funds contributed by each party for a $1 million project. Diagram #1 portrays the same $1 million example, and includes the role of the SSBCI and local governments, together with their loan positions. In this example, the local governments would guarantee 10%, or $100,000, of the total project amount to the private lender.

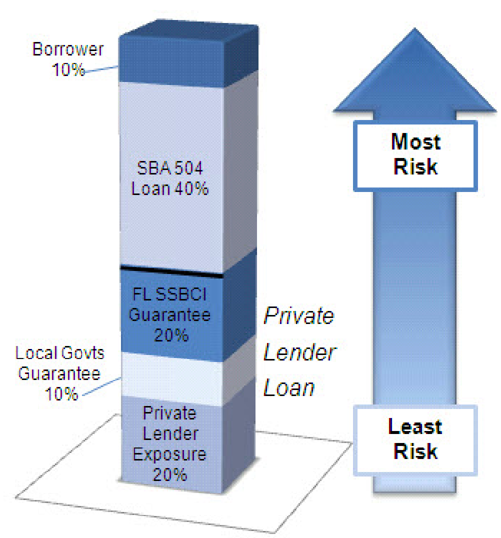
Diagram #1: Small Business Lending Guarantee Proposal with SSBCI Participation



Under this proposal, both the SSBCI funds and the local government funds would be used to guarantee the private lender's loan to the small business. The benefit to the program is that it mitigates the first position lender's loss to 20% of the total project, providing an additional incentive for banks to increase the volume of small business loans. In a loan default scenario, the project would have to lose 70% of its value prior to the local governments experiencing any loss. The borrower would be the first to lose its equity ($100,000), then the SBA would lose its $400,000, and the state would lose its $200,000 for a total loss of $700,000 prior to the local government experiencing a loss.

Diagram #2 offers another illustration of each participant's risk, or exposure, under the same lending scenario. It is important to note that this illustration is the ideal participation of the County and City as originally proposed by the stakeholders. In this scenario, the borrower puts down 10% and qualifies for the full 40% SBA loan and 20% SSBCI guarantee. The local governments would guarantee 10% leaving the private lender with a 20% exposure on the small business loan. For this loan, the greatest risk is borne at the top of the bar graph while the participants nearest to the base enjoy the least risk. In a loan default scenario, the project would have to lose 70% of its value prior to the local government experiencing any loss.

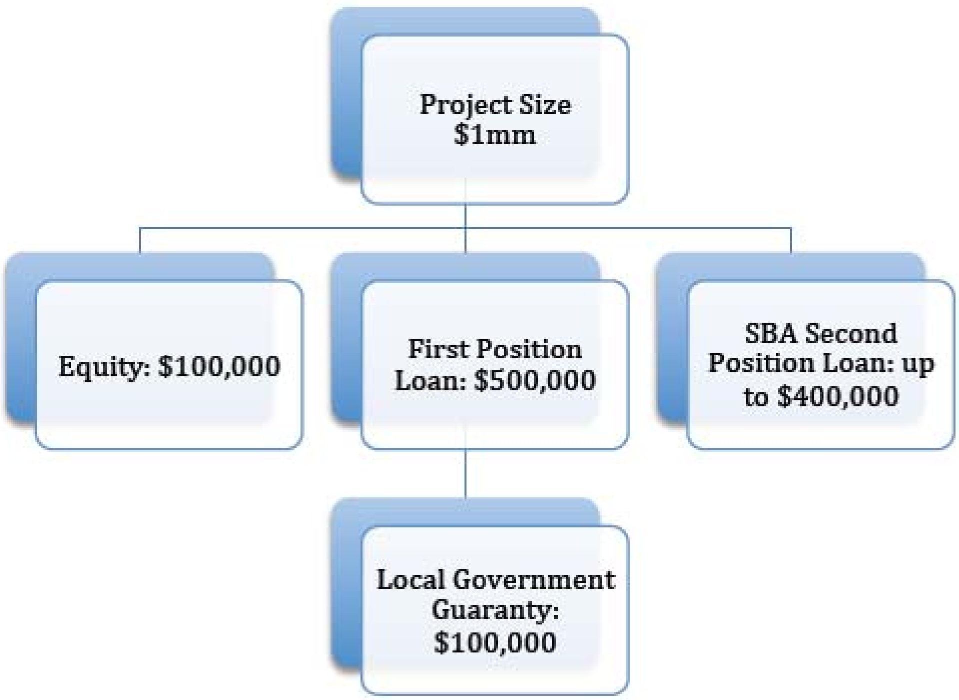
Diagram #2: Distribution of Risk Under an Ideal Loan



This means that the local governments would be held harmless in a situation whereby the borrower defaults, the lender takes ownership of the project (land, building, equipment, etc.), and it has a value of at least 30% of the loan amount. The borrower would lose his 10% equity, the SBA would lose its 40% loan, and the SSBCI would lose its 20% guarantee. It is highly unlikely for a fixed good or asset eligible for an SBA loan to lose 70% of its value over a reasonable period of time. However, this does lead to the question of how long the local governments should guarantee a small business loan. This issue is addressed later in this section.

Diagram #3 portrays another $1 million loan example without the participation of the SSBCI. Like the previous diagram, the local governments guarantee 10%, or $100,000, of the total project amount to the private lender who enjoys first position on the loan.

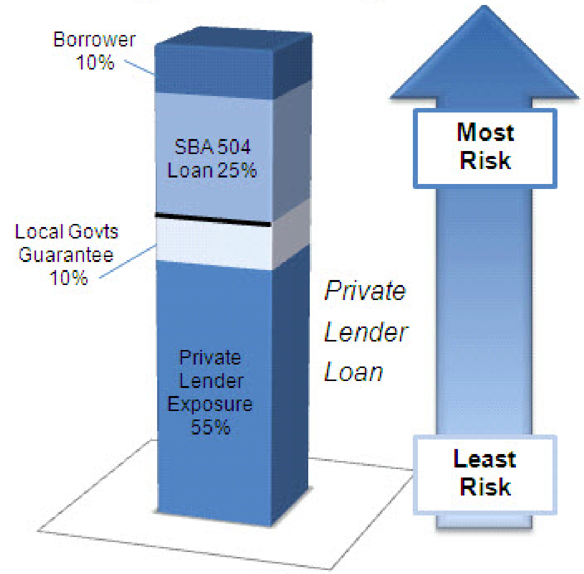
Diagram #3: Small Business Lending Guarantee Proposal <u>without</u> SSBCI Participation



A project that qualifies for the SBA 504 loan with the local government guarantee but no SSBCI participation would mitigate the first position lender's potential loss to a maximum of 40% of the total project. In a loss scenario, the project would have to lose 50% of its value before the local government guarantee is affected. The borrower would lose its equity first, then the SBA, prior to the local governments experiencing a loss.

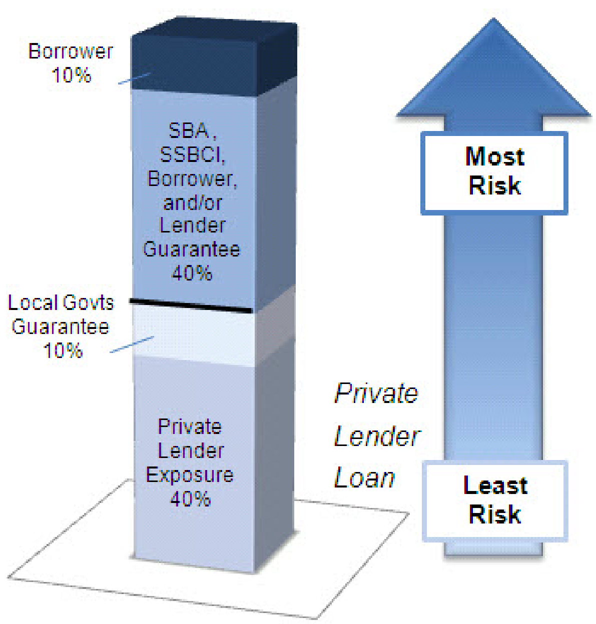
Diagram #4 offers an alternative illustration of each participant's risk, or exposure, under less than ideal conditions. In this scenario, the borrower puts down 10% but does not qualify for the SSBCI guarantee similar to the illustration in Diagram #3. However, the borrower does not qualify for the full 40% SBA loan in Diagram #4. Instead, the SBA only agrees to a 25% guarantee leaving the private lender exposed on 55% the loan. This greatly increases the County's exposure in comparison to the ideal scenario laid out in Diagram #2. Given that the participants nearest the top of the bar graph bear the greatest risk, a loan default claim would be made to fulfill the County's guarantee if the project lost more than 35% of value. The absence of state participation and less than full support from the SBA leaves the County much more exposed than the ideal conditions illustrated in Diagrams #1 and #2.

Diagram #4: Distribution of Risk Without Full SBA Participation or State Participation
(Not Recommended)



The proposal submitted by Inkbridge would require lenders whom are seeking a local guarantee for an SBA eligible loan to also apply, if eligible, for the SSBCI guarantee. Staff concurs with this requirement as it would help mitigate the County's exposure but additional precautions are needed prevent local government participation in a guarantee with a less than favorable loan position as illustrated in Diagram #4. Staff recommends establishing a maximum threshold for the County's guarantee risk by requiring that at least the first half (50%) of the risk on the loan be borne by other participants. This could include a combination of the borrower, SBA, SSBCI, and even the lender if needed as illustrated in Diagram #5. By positioning the County's risk in the bottom half of the loan, lenders would still qualify for the local guarantee without state participation (borrower's 10% plus SBA's 40%). For projects that receive less than the full 40% SBA loan, lenders could still qualify for the local guarantee with the addition of SSBCI participation, an increase in the borrower's equity, or by moving a portion of its risk ahead of the local guarantee so that the County does not bear any risk in a default for the first 50% of loan value.

Diagram #5: Distribution of Risk - Staff Recommended Maximum Exposure



The Board may also want to consider how long it wishes to guarantee these small business loans. The proposal calls for the local guarantee to last for the life of the loan, which could be 10-20 years. Eligible purchases with SBA funds include items such as equipment, machinery, and furniture that depreciate over time. A mid term default on a long-term loan could leave the lender-depreciated assets. This example is used to illustrate additional risks associated guaranteeing loans that may be cause for limiting the term lengths. Loan terms under the SSCBI may not exceed five years yet ten years in the minimum term under SBA loans. A broader policy discussion for the Board to consider is whether the County should be involved in small business lending for the long term versus the short term in response to the current local, state, and national economic conditions. Staff is not prepared to make a recommendation on an exact loan term and would like to confer with the City for a mutual and reasonable participatory timeframe.

Stakeholders' Forum

The February 14th stakeholders' forum provided a brief overview of the 504 Loan Program, the Florida SSBCI Program, and the local government guarantee proposal followed by a question and answer session. Participants were appreciative of the County's ongoing economic development efforts and willingness to consider somewhat of a non-traditional proposal. Staff utilized this forum to engage stakeholders about the current state of the local economy and the merits of local governments guaranteeing small business loans. Stakeholders offered mixed input regarding the current credit market and the availability of small business loans. Some participants articulated that loan demand has dramatically declined while others suggested that lending and credit markets have greatly constricted since the start of the recession.

The consensus among the lenders was that an additional 30% guarantee (20% from the state plus 10% from the local governments) would incentivize lending to local small businesses. More specifically, it would encourage smaller banks to participate in larger loans that they may generally avoid due to the amount of capital needed to encumber over a long period of time. When pressed by County staff, lenders did not believe that the additional guarantees would lead to 'riskier' loans.

Several of the lenders at the stakeholders' forum were encouraged to learn of Florida's 504 Bridge Loan Program and the additional protections it affords during the construction phase. The 504 Bridge Loan Program will remove the interim 90% financing risk during the construction phase by loaning, or advancing, the SBA's portion of the loan to the private lenders until the loan is closed and the SBA can provide its loan to the lender.

A point of emphasis among all of the stakeholders, from the lenders to the borrowers, was the need for a user-friendly program. Electronic applications for SBA loans generally have a two-to-three day turnaround time to determine eligibility. A seamless process would be needed for the local government portion to add value to both the borrower and lender. This reinforces the need to marry the parameters desired and set forth by both the County and City so there is a singular, uniform, and user-friendly process for the small business loan guarantees.

Additional Considerations

During initial conversations about the proposed small business lending guarantee program, staff engaged the County Attorney's Office, the Office of Management and Budget, and the Finance Division of the Clerk's Office to verify the legality of participating in the program and to evaluate the County's options for encumbering $2.5 million. There were concerns that the County would be required to appropriate the $2.5 million to a third party to manage the program rather than retaining the funds under the County's auspices. Upon further review by the County Attorney, it was determined that the proposal would pass constitutional muster so long as the $2.5 million was designated as a one-time expenditure.

By keeping the funds in-house, the County enjoys the dual-purpose benefit of having $2.5 million cash on hand earning interest while being leveraged as part of the local guarantee program to stimulate small business development. Any efforts to utilize the program funds as a revolving pool as the loans are repaid may trigger additional legal concerns. Therefore, staff has developed a series of recommendations and adjustments to the original proposal based on the premise that the loan guarantee program would function as a pilot program with a one-time expenditure. Should the local loan guarantees prove to be successful and interest the Board in the future, a subsequent one-time expenditure could be allocated to continue the program. Table #2 provides a side-by-side comparison of the proposed operating mechanics and descriptions (as presented in Attachment #2) with the comments and recommendations of County staff.

Table #2: Proposed Mechanics & Description of Local Guarantee Program Along with Staff Comments and Recommendations

Proposed Mechanics	Proposed Description	County Staff Comments & Recommendations
What kinds of borrowers are eligible to participate?	• Borrowers must meet eligibility requirements under the SBA CDC/504 Program. • The project must be located within Leon County. • Business must be considered a "small business" pursuant to SBA stands.	• To maximize available funds for this project, projects would have to be located within the City limits. However, considerations would have to be made so that projects in the unincorporated area are not excluded from this economic development opportunity.
What sizes of projects are eligible?	• Project sizes can range from $50,000 to $13,750,000.	No comments

Table #2 Continued: Proposed Mechanics & Description of Local Guarantee Program Along with Staff Comments and Recommendations

Proposed Mechanics	Proposed Description	County Staff Comments & Recommendations
What are the characteristics of the guarantee?	• Both the City of Tallahassee and Leon County will each extend $2,500,000 worth of coverage for a total available guarantee amount $5,000,000. • A minimum of 20% of the $5,000,000 total guarantee amount shall be extended to new capital projects, thereby increasing tax revenue. • The local government guarantee shall be 10% of the project amount or $500,000 whichever is less. Under special exception, the local guarantee may be up to 20% of the project amount or $1,000,000, whichever is less. Special exception applications require CRA board approval.	• Staff recommends increasing the minimum investment for new capital projects to 40%. • Staff recommends increasing the local government guarantee to 10% of the project amount or $550,000, whichever is less, to mirror the increased incentives offered by the SBA for manufacturing and energy-related projects.
What types of loans are eligible for the guarantee?	• First lien positions with an SBA 504 second position loan. • Note: If the SBA 504 is used in conjunction with a new market tax credit transaction, the local government guarantee can be extended to either the leveraged lender or the community development entity. • Note: If the SBA 504 first lien position is pooled, the local government guarantee shall go to the original lender and pool originator.	No comments

Table #2 Continued: Proposed Mechanics & Description of Local Guarantee Program Along with Staff Comments and Recommendations

Proposed Mechanics	Proposed Description	County Staff Comments & Recommendations
How does the program work in conjunction with the SBA CDC/504 Program and the States Small Business Credit Initiative?	• If the loan is eligible under the state program, in order to be considered for the local government guarantee, the borrower must make application under the state program. • If the loan has been approved under the state small business credit initiative program, the local government guarantee shall be senior to both the SBA 504 and the state. Assuming the state guarantee is 20% of the project, the project would have to lose 70% of its value prior to the local government experiencing any loss. • If the state program does not have available dollars, the local government may approve a loan without state participation. • In the event the state does not participate in the project and the local government guarantee is extended, the project would have to lose 50% of its value (10% borrower equity and up to 40% SBA guarantee) prior to the local government experiencing any loss.	• Staff concurs that the borrower should be required to make application under the state program if eligible. State participation would further reduce exposure to the County and City. • Staff recommends establishing a maximum threshold for the County's guarantee risk by requiring that at least the first half (50%) of the risk on the loan be borne by other participants. This could include a combination of the borrower, SBA, SSBCI, and even the lender if needed. By positioning the County's risk in the bottom half of the loan, lenders could still qualify for the local guarantee without state participation.
How can loan proceeds be used?	• For any business purpose, as long as the purpose qualifies pursuant to SBA CDC/504 Program requirements. Such purposes include, but are not limited to the following: purchase of land (including existing buildings), purchase of improvements (including grading and street improvements, utilities, parking lots, and landscaping), the construction of new facilities, the purchase of long-term machinery and equipment.	• In summation, proceeds should be utilized in accordance with the guidelines set forth in the SBA 504 Loan Program with one caveat; a cap on refinancing. Staff recommends a 20% cap on the amount of local government guarantees that could be applied to refinancing.

Table #2 Continued: Proposed Mechanics & Description of Local Guarantee Program Along with Staff Comments and Recommendations

Proposed Mechanics	Proposed Description	County Staff Comments & Recommendations
Who negotiates the terms of the loan?	• The first lien position will be negotiated with the lender holding the first position loan. • The second lien position will be determined as per the terms of SBA CDC/504 Program.	• The County and City will each enter into a contractual relationship with lenders to formalize the guarantees for individual projects. • The County and City would also need to enter into an agreement with each other detailing the loss share in the event of a loan default.
What are the program's strengths?	• Guarantees are a familiar structure for commercial lenders. • The programs generate higher leverage than loan participation or collateral support programs.	• The *Stakeholders' Forum* section of this analysis (page #10) provides a summary of the various program strengths, opportunities, and threats from the perspective of lenders and borrowers.
What kinds of lenders are eligible to participate?	• Any lender eligible to make an SBA 504 senior loan.	No comments
Who originates loans in this program?	• Participating lenders originate loans and apply to the local program for guarantee approval.	No comments
Who has underwriting responsibility?	• Lenders are responsible for underwriting the loans initially. • Prior to issuing a guarantee, the local government requires an SBA loan authorization, which must be submitted with the application. The local government will review and approve guarantee applications that are submitted by the lenders; upon approval, a commitment letter is issued to the lender outlining the terms of the guarantee.	Staff recommends authorizing the County Administrator to negotiate with the City, subject to approval, to mirror and finalize the small business loan guarantee program requirements for final approval by both Commissions.
Is a guarantee fee charged?	• A one-time fee of 25 basis points of the amount of the guarantee will be charged to the lender.	For lenders to utilize guarantees, SBA requires that they be purchased. 25 basis points on the proposed $2.5 million contribution from the County would generate $6,250 in fees.

Table #2 Continued: Proposed Mechanics & Description of Local Guarantee Program Along with Staff Comments and Recommendations

Proposed Mechanics	Proposed Description	County Staff Comments & Recommendations
What is the guarantee term?	• The term shall correspond to the term of the first position loan.	• The Board may want to consider how long it wishes to guarantee these small business loans (for the life of the loan or a specified period of time). Loan terms under the SSCBI may not exceed five years but ten years in the minimum term under SBA loans.
What percentage of the project can the guarantee cover?	• 10% of the project amount but not to exceed $500,000; whichever is less (corresponds to EDC Authority). • Note: When a lender has been issued multiple guarantees under this program, the loans shall be viewed as a pool and the 10% guarantee shall be deemed issued on the pool rather than on individual projects. • Special exception shall be given to projects located in the CRA (contingent on CRA board approval) of 20% of the project amount but not to exceed $1,000,000.	• Staff recommends increasing the local government guarantee to 10% of the project amount or <u>$550,000</u>, whichever is less, to mirror the increased incentives offered by the SBA for manufacturing and energy-related projects. • Should the Board wish to provide additional incentives for projects located within the CRA, staff recommends increasing the local government guarantee amount to 20% of the project amount or $1 million, whichever is less, <u>rather than including the CRA Board as a separate third party entity in the local guarantee.</u> It should be noted that offering an additional incentive within the CRA aligns with the Board's investment and commitment toward downtown redevelopment but it would negate the return on investment with regard to the collection of ad valorem revenues.

Table #2 Continued: Proposed Mechanics & Description of Local Guarantee Program Along with Staff Comments and Recommendations

Proposed Mechanics	Proposed Description	County Staff Comments & Recommendations
What happens in the case of a default?	• If a borrower defaults on a loan, a lender may submit a claim to the local government or its agent in accordance with the terms of the guarantee agreement. • The guarantee agreement shall specify the responsibilities of the lender in pursuing available remedies to collect unpaid principal and interest prior to submitting a claim. • The County and the City shall share pro-rata with respect to any losses under the Program.	• Staff will continue to work with the County Attorney's Office and local stakeholders to specify the responsibilities of lenders in pursuing available remedies upon default and bring those parameters back to the Board for approval prior to initiating the program.

Staff Recommendation

Job creation and economic development have long been a top priority but the County has dramatically accelerated its efforts over the past three years in light of the local and national economy. The Board has utilized long and short-term efforts to promote and sustain employment opportunities in the County. As the regional hub for business, government, and education, the County has aggressively invested in infrastructure improvements and modified existing growth, environmental, economic, and purchasing practices to enhance economic opportunities and promote job creation.

This proposal before the Board seeks to provide an economic development tool that gives local lenders an incentive to leverage federal and state programs to enhance small business development. There are inherit risks in guaranteeing local business loans; however, the mechanics of state and federal programs combined with the County's position in the loan and the additional recommendations offered by staff are designed to mitigate those risks as much as possible. The goal of SBA lending is to promote owner-occupied small business development, which is a shared economic development interest for our community as we continually strive to diversity our economy.

As noted throughout this item, a joint process for County and City participation is needed for this endeavor to be successful. This requires both Commissions to adopt identical requirements and parameters to ensure a user-friendly process. This workshop item was designed to offer a greater understanding of how the SBA 504 Loan and the Florida SSCBI could be leveraged with the proposed local government guarantee to enhance lending for small business development. Staff recommends that the Board authorize the County Administrator to negotiate with the City of Tallahassee, based on the staff guidance provided throughout this analysis and direction provided by the Board during the workshop, to mirror and finalize the small business loan guarantee program requirements for final approval by both Commissions.

Should the Board adopt Options #1 and #2, staff would negotiate with the City to finalize the program and processes for the local guarantee program before bringing back an agenda item to encumber the $2.5 million for the program. If the City decided against participating in this program, the Board could choose to proceed on its own by offering a 5% guarantee with its $2.5 million commitment or it can commit the full $5 million (10%) to support this program. City staff expects to present this proposal and their recommendations to the full City Commission on either March 14 or 28, 2012.

Options:

1. Accept staff report and direct the County Administrator to negotiate with the City of Tallahassee to mirror and finalize the small business loan guarantee program requirements.
2. Upon completion of negotiations with the City, bring back an agenda item for final approval by the Board to encumber $2,500,000 for the guarantee program.
3. Accept staff report and take no further action.
4. Board direction.

Recommendation:
Options #1 and #2.

Attachments:
1. January 24, 2012 agenda item on a small business lending guarantee program.
2. Proposal submitted by Inkbridge to increase access to capital for local small businesses.

Leon County
Board of County Commissioners

Cover Sheet for Agenda #21

January 24, 2012

To: Honorable Chairman and Members of the Board

From: Vincent S. Long, County Administrator

Title: Consideration of a Localized Small Business Lending Guaranty Program and Request to Schedule a Workshop on February 28, 2012 from 1:30 p.m. to 3:00 p.m.

County Administrator Review and Approval:	Vincent S. Long, County Administrator
Department/ Division Review:	Alan Rosenzweig, Deputy County Administrator
Lead Staff/ Project Team:	Ken Morris, Director, Economic Development & Business Partnerships

Fiscal Impact:

This item does not have a fiscal impact.

Staff Recommendation:

Option #1: Accept staff report and schedule a workshop on February 28, 2012, from 1:30 – 3:00 p.m. to further evaluate the proposed small businesses lending guaranty program.

Report and Discussion

Background:

Following the Board's adoption of the strategic priorities, at the December 16, 2011 Commission meeting, Commissioner Maddox requested staff bring back an agenda item regarding a program that would guarantee small business loans. Included as one of the Board's adopted Strategic Priorities is:

> *"Support business expansion and job creation, including the implementation of the Leon County 2012 Job Creation Action Plan, to include evaluating the small business credit program."*

The lack of access to capital for small businesses was a problem identified by the County through the surveying of local business owners and leaders in preparation for the Board's workshop in September to determine how the County could stimulate job creation. The workshop produced 36 recommendations as a framework for the Leon County 2012 Job Creation Action Plan. One of the Board's recommendations from that workshop included evaluating lending opportunities to encourage entrepreneurship. This item provides an overview of the U.S. Small Business Administration's 504 Loan Program, the State of Florida's State Small Business Credit Initiative (SSBCI), and a proposal for the County and City to leverage the two programs by guarantying a portion of small business loans.

Subsequent to the Workshop on the County's Economic Development Activities and Survey of Local Business Leaders on Job Creation, the Board approved an Economic Development and Regulatory Review (EDRR) LEADS Team made up of interdepartmental personnel and community partners to develop and monitor the progress of the Board's action plan and to conduct a review of local regulatory challenges. Several of the recommendations identified by the Board required immediate attention prior to convening the LEADS Team including two Board workshops. In October, the Board approved its state and federal legislative priorities, which incorporated the economic importance of advocating on behalf of the state workforce. In November, the Board conducted a workshop on the allocation of tourism development taxes that lead to additional investment and improvements of the proposed Meridian Marker Amphitheater at Cascades Park. This agenda item recommends a third workshop to be held in February to consider a loan guaranty proposal for small businesses. Additional efforts, also addressed by the Board, include renewing the County's agreement with the EDC to provide comprehensive economic development and job creation activities, renewing the County's Interlocal Agreement and Service Plan with Workforce Plus to provide workforce and job placement services, hosting a Town and Gown forum in the County Commission Chambers on public safety, and supporting efforts to attract affluent retirees (Choose Tallahassee).

The EDRR LEADS Team is scheduled to convene on January 31st to develop an implementation plan for the Board's consideration. The timing of the LEADS Team meeting(s) and subsequent action plan allows the County to maximize its interdepartmental staff resources following the state legislative session, and implementation of the minimal environmental standards approved in the County's Charter. Staff anticipates the LEADs team to finalize the recommended implementation plan for the 2012 Job Creation Action Plan and bring forward for the Board's consideration at the March 13, 2012 Commission meeting.

Analysis:

Many public and privately managed loan programs specifically cater to small business endeavors. However, Table #1 provides staff's findings through the job creation surveys conducted over the summer, which indicates a need for greater access to capital.

Table #1: 2011 Job Creation Survey Results: Access to Capital

Subject Area	*General Comments*
Access to Capital	A. *Keith Bowers, FAMU Small Business Center*: Lack of access to capital. Banks are not lending and people can no longer take out home equity loans to start or maintain their business. B. *Dr. Jerry Osteryoung, Jim Moran Institute*: Microloans are a good inexpensive tool for local governments to help small businesses because they are not efficient loans for banks. Use caution, trust the free market, and be weary of helping failing businesses.
Staff Observations: Mr. Bowers makes an interesting point about the lack of access to capital and how homeowners can no longer tap the equity in their homes to start a business and secure a line of credit. The lack of access to capital will ensure a slow economic recovery. Microlending was suggested as an option for the County to consider but there is often a legitimate reason as to why a borrower cannot access capital from a private bank or the federal Small Business Administration. Further, the relatively small amount of the loans makes them undesirable for private lenders. More recently, the Florida Office of Tourism Trade and Economic Development in partnership with Enterprise Florida received $97.7 million in federal seed money in August 2011 for small-business lending.	

With the assistance of the County's state and federal lobbying teams, staff has sought additional information on state and federal loan programs, together with partnership opportunities to leverage the investment of economic development funds within Leon County. Staff has met with a workgroup of stakeholders from the Economic Development Council (EDC), the Florida Department of Economic Opportunity, and the Florida First Capital Finance Corporation to brainstorm opportunities to increase the availability of capital for small businesses. A broad proposal has come forward that first requires a firm understanding of the SBA's 504 Loan Program and Florida's SSBCI program.

<u>SBA 504 Loan Program</u>

The SBA is a federal agency that offers a variety of loan programs for very specific purposes. The SBA's 504 Loan Program is a long-term financing tool designed to encourage economic development within a community by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. The SBA works with a local Certified Development Company (CDC), a nonprofit corporation which is set up to contribute to economic development within its community, to assist in securing financing through this program. Locally, the role of the CDC is carried out by the Florida First Capital Finance Corporation that has a main office in Tallahassee and assists small businesses throughout the state.

Under the 504 loan, the local CDC assists small businesses with securing a portion (up to 50%) of the loan through a private vendor. The CDC lends up to 40% of the loan which is 100% guaranteed by the SBA. The private lender offering 50% of the total loan amount enjoys the senior lien position allowing it to be the first entity to collect on the loan. The borrower benefits from a long-term, fixed rate that is normally below market prices. In addition, the borrower is typically only required to put down 10% of the total project cost, which does not have to be cash. The project assets being financed are often used as collateral.

Table #2: Example of SBA 504 Loan

Entity	*Loan Amount*	*Percent of Project*
Private Lender	$500,000	50%
CDC (backed by SBA)	$400,000	40%
Business/Borrower	$100,000	10%

To be eligible for a 504 loan, a business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, a business qualifies as ‘small’ if it does not have a tangible net worth in excess of $15 million and does not have an average net income in excess of $5 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate. The 504 loan cannot be used for working capital, inventory, or consolidating or repaying debt.

A temporary program under 504 allows for refinancing. SBA 504 loans must be used for fixed asset projects such as:

- The purchase of land, including existing buildings.
- The purchase of improvements, including grading, street improvements, utilities, parking lots and landscaping.
- The construction of new facilities or modernizing, renovating or converting existing facilities.
- The purchase of long-term machinery and equipment.

State Small Business Credit Initiative

As reported at the September 13, 2011 Workshop on County's Economic Development Activities and Survey of Local Business Leaders on Job Creation, the State of Florida received $97.7 million in federal seed money in August 2011 for small-business lending. This seed money was created by the federal Small Business Jobs Act of 2010 to help states strengthen existing loan and equity programs and/or create new programs that support financing small businesses. The primary objective of Florida’s SSBCI Program is to leverage private capital for Florida’s small businesses, which are defined as businesses with 500 employees or less. Therefore, this program could be leveraged with the SBA 504 Loan Program as proposed later in this item.

Florida's SSBCI Program is divided into three areas:

1. *Florida Capital Access Program*: The Florida Capital Access Program (FL-Cap) is a loan portfolio insurance program that enables lenders to make "riskier" loans to small businesses by making cash contributions to a reserve fund for each enrolled CAP loan. When a loan is originated, the borrower must contribute a percentage of the loan (between 2 - 7%) into a reserve fund held by the lender. FL-CAP matches the contribution by depositing cash into the lender-held reserve fund. Each CAP reserve fund will then be available to the lender as cash collateral to cover losses on all loans within its FL-CAP portfolio. There is a $5 million maximum loan amount, but no minimum loan amount. The Florida Department of Economic Opportunity manages this program.

2. *Florida Venture Capital Program*: The Florida Venture Capital Program, managed by Enterprise Florida, provides equity investments and convertible debt instruments to emerging Florida companies (or companies locating in Florida) with perceived long-term growth potential. Convertible debt is an investment that "converts" into equity at a future point in time and usually at a discounted rate. Emphasis is placed on transactions within Florida's targeted industries, which include:
   a. *Aviation & Aerospace*
   b. *CleanTech*
   c. *Financial & Professional Services*
   d. *Homeland Security & Defense*
   e. *Information Technology*
   f. *Life Sciences*
   g. *Advanced Manufacturing*

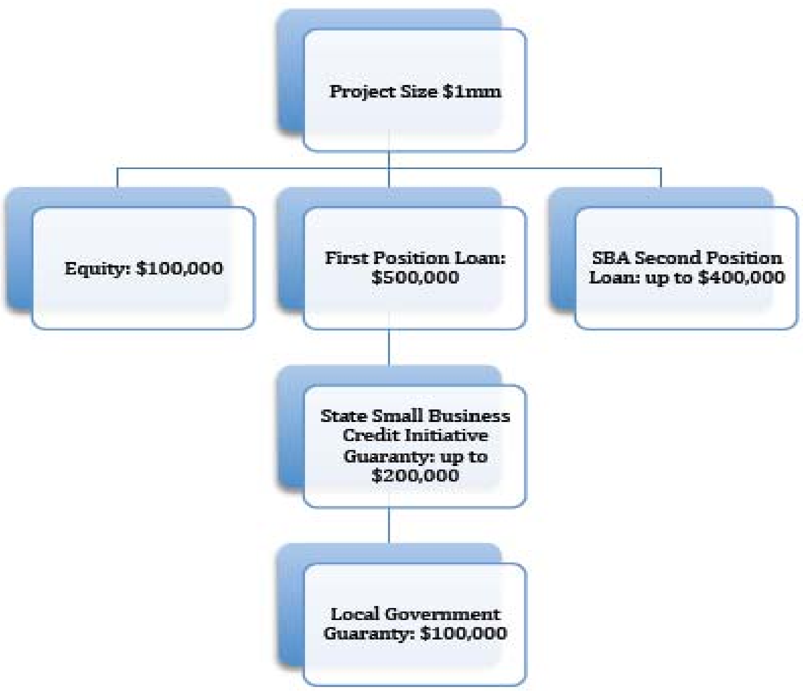
3. *Small Business Loan Support Program*: The Small Business Loan Support Program is designed to provide Florida small businesses with credit enhancement and other tools to better access commercial bank and export financing. Each transaction will require at a minimum, a matching concurrent private capital investment or other credit assistance. This program includes the following:
   a. *Loan Guarantee Program & Loan Participation Program:* The State will provide loan guarantees or loan participation of up to 20% of the total required financing.
   b. *Direct Loan Program:* The State will provide a direct loan to a borrower for up to 20% of the total required financing.
   c. *504 Bridge Loan Program:* The State will provide a guarantee for the 40% of a 504 loan during the interim period (up to 180 days) prior to the bank being "taken-out" by the SBA.
   d. *Export Loan Guarantees and Export Direct Loans:* The State will provide a loan guarantee or participation to exporting small businesses.

The Localized Small Business Guaranty will work in conjunction with the Loan Guarantee and Loan Participation Program described above.

Localized Small Business Guaranty Proposal

A proposal was submitted to staff seeking the County and the City to set aside $2.5 million each to guarantee a portion of private lenders' small business loans under the SBA 504 and SSBCI Programs. This guaranty would amount to a maximum of 10% for any given loan or project meaning that $50 million in small business loans would have to be made in order to exhaust, or commit, all $5 million of the local funds. In the simplest terms, this proposal seeks to leverage federal, state, and local funds to maximize capital for small business lending with minimal risk of local funds. Table #2 illustrates a typical SBA 504 loan and the amount of funds contributed by each party for a $1 million project. Diagram #1 portrays the same $1 million example and includes the role of the SSBCI and local governments along with their loan positions. In this example, the local governments would guarantee 10%, or $100,000, of the total project amount to the private lender.

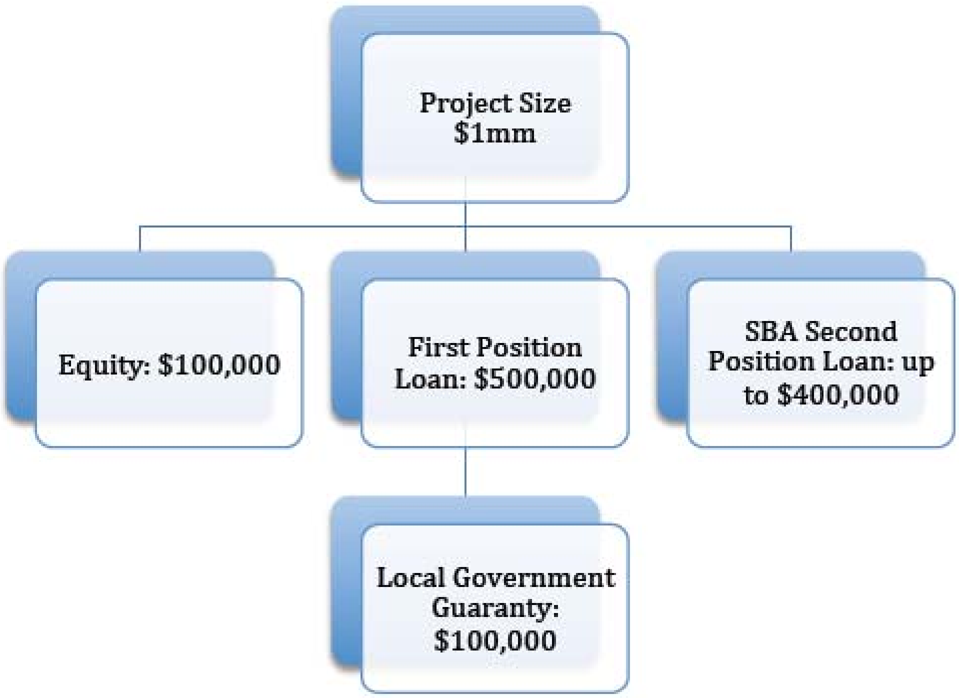
Diagram #1: Localized Small Business Credit Proposal with SSBCI Participation



Under this proposal, both the SSBCI funds and the local government funds would be used to guaranty the private lender's loan to the small business. The benefit to the program is that it mitigates the first position lender's loss to 20% of the total project, providing an additional incentive for banks to increase the volume of small business loans. In a loss scenario, the project would have to lose 70% of its value prior to the local government experiencing any loss. The borrower would be the first to lose its equity ($100,000), then the SBA would lose its $400,000, and the state would lose its $200,000 for a total loss of $700,000 prior to the local government experiencing a loss.

Diagram #2 portrays another $1 million loan example without the participation of the SSBCI. Like the previous diagram, the local governments guarantee 10%, or $100,000, of the total project amount to the private lender who enjoys first position on the loan.

Diagram #2: Localized Small Business Credit Proposal without SSBCI Participation



A project that qualifies for the SBA 504 loan with the local government guaranty but no SSBCI participation would mitigate the first position lender's potential loss to a maximum of 40% of the total project. In a loss scenario, the project would have to lose 50% of its value before the local government guaranty is affected. The borrower would lose its equity first, then the SBA, prior to the local governments experiencing a loss.

It is important to remember that under this proposal, the County and City would be guarantying loans rather than directly lending to businesses. The proposal recommends that at least $1 million, or 20%, of the local guarantees be utilized for new capital projects thereby resulting in a minimum of $10,000,000 in new capital projects. While the local governments stand to benefit from the increased economic activity associated with small business lending, the funds used to guarantee these long-term loans would be encumbered over the life of the loan. As the loans are repaid, the County would be in the position to provide additional backing to future loans.

Staff Recommendations:

Should the Board wish to pursue this concept, staff recommends scheduling a workshop on February 28, 2011, from 1:30 – 3:00 p.m. to further evaluate the County's role, responsibilities, and potential risk in a small business lending guaranty program. Most importantly, a workshop would give the Board the opportunity closely review eligibility criteria, review local trends and utilization of SBA lending programs, determine the desired level of funding and the appropriate revenue source, weigh additional incentives for veteran, minority and women-owned business, and seek broader support from the private sector. Staff would invite community stakeholders to participate in this discussion including representatives of the EDC, lending community, and potential partners under this proposal.

Additionally, staff would utilize this time to identify and resolve any legal, fiscal, and process concerns relating to this matter. The City of Tallahassee is expected to begin weighing in on this proposal on January 25th through their Target Issue Meetings. Should both local governments express interest, a joint process would need to be developed with an emphasis on customer service and timeliness.

Options:

1. Accept staff report and schedule a workshop on February 28, 2012, from 1:30 – 3:00 p.m. to further evaluate the proposed small businesses lending guaranty program.
2. Accept staff report and take no further action.
3. Board direction.

Recommendation:
Option #1.

Local Small Business Credit Initiative: 504 Loan Guarantee Program

Increasing Access to Capital for Local Small Businesses

Local Small Business Credit Initiative: 504 Loan Guarantee Program

What is the Local Small Business Credit Initiative: 504 Loan Guarantee Program?

The 504 Loan Guarantee Program enables small businesses to obtain loans to help them grow and expand their businesses. The program provides a lender with the necessary security, in the form of a partial guarantee, for the lender to approve a loan.

What are the Credit, Guarantee and Loan Characteristics?

The table below describes key credit and loan characteristics that are included in the Local Small Business Credit Initiative 504 Loan Guarantee Program.

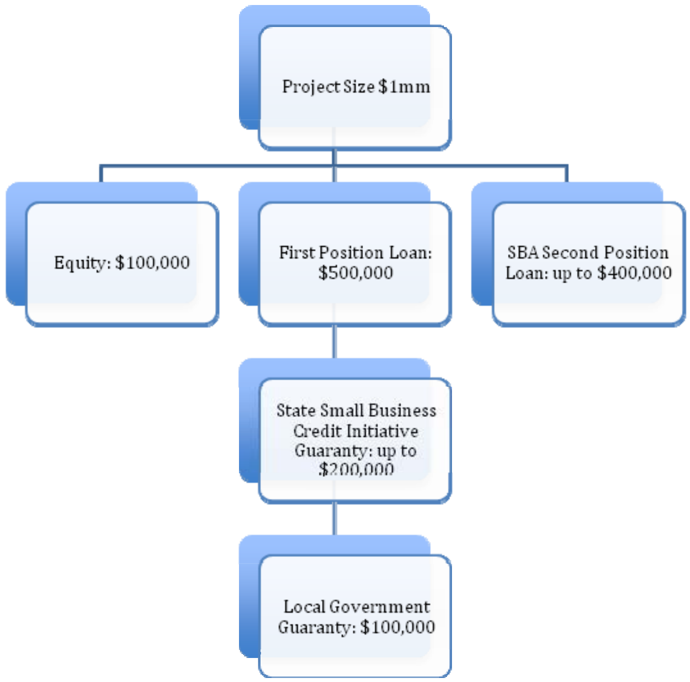
Characteristics	Description
What kinds of borrowers are eligible to participate?	- Borrowers must meet eligibility requirements under the SBA CDC/504 Program. - The project must be located within Leon County. - Business must be considered a “small business” pursuant to SBA standards.
What sizes of projects are eligible?	Project sizes can range from $50,000 to $13,750,000.
What are the characteristics of the guarantee?	- Both the City of Tallahassee and Leon County will each extend $2,500,000 worth of coverage for a total available guarantee amount of $5,000,000. - A minimum of 20% of the $5,000,000 total guarantee amount shall be extended to new capital projects, thereby increasing tax revenue. - The local government guarantee shall be 10% of the project amount or $500,000 whichever is less. Under special exception, the local guarantee may be up to 20% of the project amount or $1,000,000 whichever is less. Special exception applications require CRA board approval.
What types of loans are eligible for the guarantee?	- First lien positions with an SBA 504 second position loan. - Note: If the SBA 504 is used in conjunction with a new market tax credit transaction, the local government guarantee can be extended to either the leveraged lender or the community development entity. - Note: If the SBA 504 first lien position is pooled, the local government guarantee shall go to the originating lender and pool

	originator.
How does the program work in conjunction with the SBA CDC/504 Program and the State Small Business Credit Initiative?	• If the loan is eligible under the state program, in order to be considered for the local government guarantee, the borrower must make application under the state program. • If the loan has been approved under the state small business credit initiative program, the local government guarantee shall be senior to both the SBA 504 and the state. Assuming the state guarantee is 20% of the project, the project would have to lose 70% of its value prior to the local government experiencing any loss. • If the state program does not have available dollars, the local government may approve a loan without state participation. • In the event the state does not participate in the project and the local government guarantee is extended, the project would have to lose 50% of its value (10% borrower equity and up to 40% SBA guarantee) prior to the local government experiencing any loss.
How can loan proceeds be used?	• For any business purpose, so long as the purpose qualifies pursuant to SBA CDC/504 Program requirements. Such purposes include, but are not limited to the following: purchase of land (including existing buildings), purchase of improvements (including grading and street improvements, utilities, parking lots and landscaping), the construction of new facilities or modernizing, renovating or converting existing facilities, the purchase of long-term machinery and equipment.
Who negotiates the terms of the loan?	• The first lien position will be negotiated with the lender holding the first position loan. • The second lien position will be determined as per the terms of the SBA CDC/504 Program
What are the program's strengths?	• Guarantees are a familiar structure for commercial lenders. • The programs generate higher leverage than loan participation or collateral support programs.

<u>How Does the Local Small Business Credit Initiative 504 Loan Guarantee Program Work?</u>

Local Small Business Credit Initiative 504 Loan Guarantee Program in conjunction with the State Small Business Credit Initiative

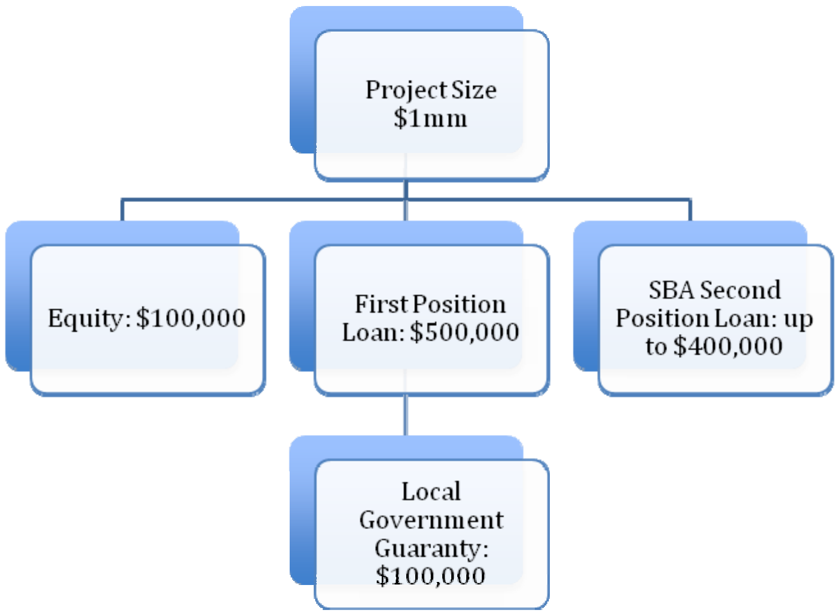
The diagram below outlines the Small Business Credit Initiative 504 Loan Guarantee Program structure working in conjunction with the State Small Business Credit Initiative.



In the event the State Small Business Credit Initiative extends a 20% Guarantee, the project would have to lose 70% of its value before the Local Government Guarantee is affected. In the above example, the project is $1,000,000. In a loss scenario, the Borrower would lose their equity of $100,000, next, the SBA would lose their $400,000, and third, the state would lose their $200,000 for a total loss of $700,000 prior to the local government experiencing a loss. The benefit to the program is it mitigates the first position lender's loss to 20% of the total project, providing an extremely attractive incentive for lenders to make loans using this program.

Local Small Business Credit Initiative 504 Loan Guarantee Program without state participation

The diagram below outlines the Small Business Credit Initiative 504 Loan Guarantee Program structure working as a stand-alone program without state participation.



In the event the local government extends a 10% guarantee, the project would have to lose 50% of its value before the Local Government Guarantee is affected. In the above example, the project is $1,000,000. In a loss scenario, the Borrower would lose their equity of $100,000 next; the SBA would lose their $400,000 for a total loss of $500,000 prior to the local government experiencing a loss. The benefit to the program is it mitigates the first position lender's loss to 40% of the total project, providing an extremely attractive incentive for lenders to make loans using this program.

Operating Mechanics	**Description**
What kinds of lenders are eligible to participate?	• Any lender eligible to make an SBA 504 senior loan
Who originates loans in this program?	• Participating lenders originate loans and apply to the local program for guarantee approval.
Who has underwriting responsibility?	Lenders are responsible for underwriting the loans initially. Prior to issuing a guarantee the local government requires an SBA CDC/504 loan authorization, which must be submitted with the application. The local government will review and approve guarantee applications that are submitted by (the lenders; upon approval, a commitment letter is issued to the lender outlining the terms of the guarantee.
Is a guarantee fee charged?	A one-time fee of 25bps of the amount of the guarantee will be charged to the lender.
What is the guarantee term?	The term shall correspond to the term of the first position loan.
What percentage of the project can the guarantee cover?	• 10% of the project amount but not to exceed $500,000; whichever is less (corresponds to EDC Authority). • Note: When a lender has been issued multiple guarantees under this program, the loans shall be viewed as a pool and the 10% guarantee shall be deemed issued on the pool rather than on individual projects. • Special exception shall be given to projects located in the CRA (contingent on CRA board approval) of 20% of the project amount but not to exceed $1,000,000.
What happens in the case of a default?	If a borrower defaults on a loan, a lender may submit a claim to the local government or its agent in accordance with the terms of the guarantee agreement. The guarantee agreement shall specify the responsibilities of the lender in pursuing available remedies to collect unpaid principal and interest prior to submitting a claim. The County and the City shall share pro-rata with respect to any losses under the Program.

Who are the Key Stakeholders and What are Their Roles?

The stakeholders in the Loan Guarantee Program include the local government, participating financial institutions and the Economic Development Council to manage the program.

Stakeholder	**Role**
What is the role of the local government, CRA and EDC?	Enters into agreements with the EDC. Issues the loan guarantee to the lender. EDC conducts outreach to inform lenders and trade associations of the (existing program; introduces the program by letter or in person, distributes press releases and/or speaks at industry or small business conferences.
What is the role of a lender?	Originates, processes, and services loans. Submits guarantee applications to the state for review/approval, and (obtains assurances of eligibility from each borrower.

What are the primary benefits to the Local Government?

The primary benefits to the Local Small Business Credit Initiative SBA 504 Loan Guarantee Program are described below.

Benefit	**Description**
Increased economic development via small business lending within Leon County	This program will stimulate approximately $50,000,000 worth of lending within the community with little to no risk to the local government. This program will greatly mitigate lender risk to encourage lenders to make loans to small businesses that otherwise would not receive financing thereby stimulating new projects within the community. Because this program is unique to Leon County, businesses may be incentivized to re-locate and/or expand operations in our community.
Leveraging federal and state programs for capital investment in the local community.	This program leverages the federal SBA 504 program and can also pair with the State Small Business Credit Initiative. By leveraging federal and state dollars, the risk to the local government is minimal however the layered benefit to the lender and project borrower is exponential.