

BLU Small Business Loan Fund Appropriation Study

In Compliance with Utah Code Annotated Sections
10-8-2 (Cities) & 17-50-302 (Counties)



October 2, 2017

Business Loans of Utah Appropriation Study

The City of Orem (“Orem”) desires to appropriate funds to invest in the growth of small businesses by participating in the small business loan fund (the “Fund”) administered by Business Loans of Utah (“BLU”).¹ The Fund’s purpose is to provide critical access to investment capital for underserved city and county businesses. Under UCA §§ 10-8-2² (cities) and 17-50-302 (counties), a study must be conducted identifying the anticipated benefits and value of proposed appropriations (the “Appropriations Study”). In compliance with the applicable statutes, this Appropriations Study on Orem’s participation in the BLU Fund was prepared in consideration of the following factors:

1. The benefit and value expected to be received in return for money or resources appropriated;
2. The purpose for the appropriation, including an analysis of the way the appropriation will be used to enhance the safety, health, prosperity, moral well-being, peace, order, comfort, or convenience of residents; and
3. Whether the appropriation is necessary and appropriate to accomplish reasonable goals and objectives in the area of economic development, job creation, affordable housing, blight elimination, job preservation, the preservation of historic structures and property, and any other public purpose.

Background

In the United States, 99.7 percent of all employers are small businesses and small businesses employ over 56 million people (or 48.7 percent of private sector employees) in the nation.³

Non-predatory lending opportunities are very limited for emerging Orem small businesses to expand. The BLU Fund is an economic development tool that allows local municipalities and counties to provide local small businesses not considered “bankable” by traditional lending institutions, with the financing they need to succeed.

Economic Development staff is often asked: “What is Orem willing to do for small businesses?” The BLU program is an answer to that question and is another tool to foster small business growth. BLU will complement the existing Revolving Loan Fund (RLF), which is also a program for small businesses that are not considered “bankable.” It is difficult to qualify for an RLF loan due to Federal requirements regarding job creation and matching equity funds. Applicants that do not qualify for the RLF may now take advantage of the BLU program which doesn’t contain the same types of requirements.

BLU will lend \$50,000 to \$200,000 to applicants that qualify after a rigorous loan qualification review. Small businesses may use the BLU Fund loans for building and site

¹ The Fund is administered by Utah Small Business Growth Initiative, LLC d/b/a Business Loans of Utah.

² <https://le.utah.gov/xcode/Title10/Chapter8/10-8-S2.html>

³ https://www.sba.gov/sites/default/files/Small_Business_Advocate_Feb_2015.pdf

improvements, real estate, equipment, working capital, accounts receivable, and refinancing of high interest loans. The City of Orem Economic Development Strategic Plan dated December 2014 Goals 3 and 4 discuss the need to develop a loan fund to assist in the retrofitting of buildings to improve their appearance as part of improving the visual and physical appearance of State Street and to create a civic center at Center Street. Participation in the BLU Fund will help meet these goals.

Benefits to Cities & Counties

1. Exponential Increase in Resources for Economic Development

a. 7-to-1

Every \$1 appropriated by Orem to the BLU Fund will yield \$7 for Orem to lend to small businesses in its area. This 7-to-1 structure allows Orem to effectively appropriate seven times the funds in its budget to economic development. Not only is this accomplished without raising taxes but it allows Orem to significantly increase the benefits taxpayers enjoy for the taxes they are already paying.

b. Returns on Investment

Cities and counties will receive interest on the loans extended to small businesses in their geographic locations. Orem will earn interest on subordinated debt at the current rate of LIBOR + 350. This rate is subject to change based on market conditions and the term of the small business loan. Interest paid will be held by BLU for cities and counties and will be available for reinvestment in the Fund upon full repayment of the small business loan.

2. Tax Base

a. Property Tax

Small business growth and development will result in higher taxable values of the commercial properties improved or built using BLU loan funds. Such development, and the reduction of blight, will incrementally increase the property tax revenue realized by local taxing authorities.

b. Sales Tax

Vacant, undeveloped, and underutilized properties capable of being used for small businesses represent potential sales tax revenue that could be recovered by participating in the BLU Fund. Sales tax revenue will increase as the number of small businesses and the economic strength of existing businesses increase.

c. Other Revenues

In addition to property and sales tax revenues, the small business development possible through the BLU Fund will generate other revenues such as business license fees, charges for services, municipal energy (“franchise”) fees, and one-time fees like building permit and impact fees.

3. Associated Economic Activity

a. Business and Employee Expenditures

It is anticipated that small businesses will directly and indirectly purchase local goods, services, and labor related to their operations from local or regional sources. These purchases will likely increase employment opportunities in the related businesses of restaurants, utility services, equipment sales and repair, retail, professional services, financial services, etc. The resulting impacts to the community will include:

- Encouragement of economic development and the creation of additional jobs in the community.
- An increase in direct purchases within the city/county.
- Economic diversification within the city/county.
- Strengthening of existing businesses and industries located within city/county by providing new employees likely to live, shop, and pay taxes in the city/county and region.

b. Construction Expenditures

Loans used to fund construction activities associated with building, expanding, and renovating commercial space for small businesses will stimulate growth and employment of construction contractors, suppliers, and laborers. A portion of the labor costs associated with these construction activities will be spent in the community by laborers for convenience goods and services (e.g., lunch, fuel, personal services, etc.).

c. Neighborhood Benefits

The loan funds used to build new commercial space, and improve existing buildings, will reduce blight and spur additional redevelopment in surrounding areas. Residents of adjacent neighborhoods and nearby commercial properties will benefit from the private investment in the form of accessible, local commercial services, and from the increased safety, rising property values, and renewed vitality that come from development and blight reduction.

Purpose for the Appropriation

The purposes for making appropriations to the BLU Fund include:

- To strengthen small businesses, create and retain jobs, and provide economic opportunities by improving access to small business financing.
- To provide loans to small businesses unable to acquire financing from traditional financial institutions, but whom BLU deems otherwise creditworthy.
- To stimulate the redevelopment and utilization of vacant commercial and industrial property.
- To provide cities and counties with opportunities to increase economic development in their areas by accessing BLU funds made available for small business loans.

Necessary & Appropriate to Accomplish Orem's Goals and Objectives

This appropriation is necessary and appropriate to accomplish the reasonable goals and objectives of Orem in the area of economic development, job creation, affordable housing, blight elimination, job preservation, and any other public purposes.

A. Necessary

This proposed public investment in the BLU Fund and small business is an opportunity to “jumpstart” new interest and private development in the immediate area. Except for the use of public investment in the form of the proposed appropriation, it is reasonably expected that, due to market constraints and lack of interest because of risk, the desired expansion and growth of the area would not occur or would occur in an undesirable manner. Working together with private lenders and BLU will ensure that the proposed appropriation will have an immediate leveraged impact on the area, will bring about the greatest value, and help ensure economic development is accomplished in a comprehensive manner.

B. Appropriate

Appropriations to the BLU Fund are appropriate given the potential for exponential growth and development of small businesses, job creation, and the general economic improvement. The risk-managed structure of the fund limits the exposure to losses and provides unrivaled leveraging of resources.

To meet public notice requirements, this study has been available for public review since October 2, 2017. The legislative body will hold a public hearing on whether to adopt the resolution at issue. The public hearing will be held October 17, 2017, at 6:00 p.m. at the Orem City Council Chambers located at 56 North State Street, Orem, Utah.