



Legislation Text

File #: 23-351, **Version:** 1

Resolution Adopting a Rewrite of the Business Revolving Loan Policy

PURPOSE: To adopt a rewrite of the Business Revolving Loan Program Policy.

DEPARTMENT: Economic Development

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COUNCIL DIRECTION:

 X Race/Equity Climate X Comprehensive Plan Other

This policy rewrite removes some collateral requirements and lowers barriers for certain businesses and entrepreneurs that do not have access to real or personal property. This revision is also a part of fulfilling Comprehensive Plan Economic Development Strategies 1.2 and 1.3.

INFORMATION:

The business revolving loan fund was created in 1986 for projects that result in the creation or retention of jobs. Loans from the fund were made to private non-profit and for-profit firms for projects such as construction or renovation of a building, purchasing existing buildings, the acquisition of equipment, and extension of utilities or streets to new sites, parking lots, and inventory. Other potential projects are explored with applicants if it can be shown that new employees will be hired or employees who would otherwise lose their jobs will be retained. The interest rate charged was based on cash flow projections and other means of documented need. Currently, the applicant secures all loans through an agreement conveying to the town a financial interest in the property the applicant owns.

At the current time the Revolving Loan Program is operated on very subjective terms set forth by the Economic Sustainability Commission and approved by the Town Council rather than by setting forth a written policy on terms. As we work to focus on equity, subjectivity introduces the opportunity for certain groups to be granted more favorable terms than others. This policy rewrite sets forth different loan products and terms based on the credit rating or standing of the applicant, the amount borrowed, and (if applicable) the amount of collateral that is provided.

Significant changes in this draft policy create an appropriate security system based on the amount of funding that is being requested to provide some level of financing to entrepreneurs who may not have personal or real property to put up as collateral. This draft policy also incorporates an internal credit system to help ensure that entrepreneurs with a solid business idea and plan can obtain at least \$3,000 in start-up financing and can work up to higher levels of financing if the original loan has payments made on-time and paid off on schedule.

Of note, interest rates in this policy are based on the Prime Rate as set by the Federal Reserve but may be

lowered to match a private financial institution's rate if the terms are comparable. This is primarily due to certain requirements in the State Constitution (and subsequent case law) that requires local governments to not provide more favorable terms than the private sector but give us the flexibility to match the private sector in cases where additional financing is acquired.

Additionally, recognizing that Carrboro's local economy extends beyond its Town Limits, this draft policy also supports and encourages agriculturally based businesses with Carrboro's "Area of Economic Influence" to give then access to these loan funds as well. These businesses support the Town's local economy directly by providing fresh food for our restaurants, agricultural-based production such as cider or beer, or raw materials for artisanal producers in-town such as wool.

FISCAL IMPACT: Estimated impact to the Revolving Loan Fund is expected to be overall positive due to expected increase in the number of loans caused by a combination of more favorable terms and expanding the geographic scope of the loan to include agricultural establishments outside of the Town Limits. Expected neutral impact on the General Fund in the short-term due to no significant or a modest increase in the number of small businesses in Carrboro.

RECOMMENDATION: The Economic Sustainability Commission recommends approval of the resolution adopting the rewritten policy.