




Staff Report

September 11, 2012

TO: Honorable Mayor and Town Council
FROM: Roger Carroll, Treasurer/Finance Officer 
DATE: August 30, 2012
RE: Update on Town Business Loan Program

RECOMMENDED ACTION:

Hear staff report, discuss, and choose one of these three options:

1. Make no changes to the Business Loan Program
2. Move handling of all future loans "in-house."
3. Move handling of all future loans "in-house," and take over handling of the one current loan.

Should either option 2 or 3 be chosen, Staff will bring back a resolution to the October Council meeting.

ISSUE STATEMENT AND DISCUSSION:

A few years back, the Town Council set aside \$500,000 of General Fund reserves to be used for business improvement loans to Loomis businesses. The interest rates charged would be lower than the current market to assist the local businesses, but high enough to keep pace with the Town's regular portfolio. The Town contracted with Sierra Economic Development Corporation (SEDCorp) to administer the program for the Town.

In November, 2009, the first, and only, loan was issued for \$50,000 at an interest rate of approximately 5.25%. The borrower has consistently made the \$811.06 monthly payment to SEDCorp. SEDCorp then deducts its fees and sends the remaining amount to the Town. The initial fees to SEDCorp exceeded the entire first year's interest income from the loan. In the last fiscal year, in five of the months, the fees have exceeded interest income. In a letter from SEDCorp CEO, Brent Smith, he points out that this will only get worse as the interest earning balance decreases.

To date, this loan has earned \$1,181.45 in excess of the \$4,052.50 fees applied against the loan. That is an average annual percentage rate of 1.15%. The Town's portfolio continues to earn almost 3%.

Mr. Smith points out that "not enough loans have been made." He is correct. More loans, would of course, generate more interest and hopefully the economies of scale would minimize additional overhead costs.

So, this brings it to the Council to decide where to go with this program. Do we (1) stay with the current scenario and allow the fees to erode the fund? Or do we (2) leave the current loan as it is and begin handling additional loans ourselves? Billing for and collecting revenue for such a small loan program would hardly impact my time and not cost the Town any additional amount.

Option (3) might take some legal research to determine if we can take the current loan away from SEDCorp, but if we did, it would definitely stop the erosion of fund principal; my wages won't go up for the minimal additional time I would spend on it.

Attached to this report are a schedule of the loan activity, a letter written to SEDCorp CEO, Brent Smith, and his response.

FINANCIAL CONSIDERATIONS:

The financial impacts vary for the three options, above, from continued erosion of the loan fund principal, to the probably additional income.

Attachments

Black Bear Loan Repayment

		Prin	Int	Fees	Net check	Loan Balance
						50,000.00
319-1	Dec-09	703.18	107.88	1,400.00		49,296.82
319-2	Jan-10			112.50		49,296.82
319-3	Feb-10	484.89	326.17	262.50		48,811.93
319-4	Mar-10	614.47	196.59		658.18	48,197.46
319-5	Apr-10	596.15	214.91		811.06	47,601.31
319-6	May-10	591.96	219.10		811.06	47,009.35
		2,990.65	1,064.65	1,775.00	2,280.30	
319-7	Jul-10	608.21	202.85	37.50	773.56	46,401.14
319-8	Aug-10	608.21	202.85	137.50	673.56	45,792.93
319-9	Sep-10	608.21	202.85	43.75	767.31	45,184.72
319-10	Oct-10	608.21	202.85	37.50	773.56	44,576.51
319-11	Nov-10	618.75	192.31	56.25	754.81	43,957.76
319-13	Dec-10	615.10	195.96		811.06	43,342.66
319-13	Jan-11	617.84	193.22	87.50	723.56	42,724.82
319-14	Feb-11	614.45	196.61	37.50	773.56	42,110.37
319-15	Mar-11	635.45	175.61	25.00	786.06	41,474.92
319-15	Apr-11	635.45	175.61	235.00	576.06	40,839.47
319-17	May-11	635.45	175.61	122.50	688.56	40,204.02
319-18	Jun-11	631.85	179.21	122.50	688.56	39,572.17
		7,437.18	2,295.54	942.50	8,790.22	
319-19	Jul-11	640.35	170.71	62.50	748.56	38,931.82
319-20	Aug-11	643.12	167.94	147.50	663.56	38,288.70
319-21	Sep-11	640.39	170.67	135.00	676.06	37,648.31
319-22	Oct-11	643.24	167.82	37.50	773.56	37,005.07
319-23	Nov-11	640.79	170.27	62.50	748.56	36,364.28
319-24	Dec-11	659.42	151.64	172.50	638.56	35,704.86
319-25	Jan-12	657.04	154.02		811.06	35,047.82
319-26	Feb-12	644.76	166.30	187.50	623.56	34,403.06
319-27	Mar-12	667.60	143.46	87.50	723.56	33,735.46
319-28	Apr-12	670.39	140.67	147.50	663.56	33,065.07
319-29	May-12	675.93	135.13	147.50	663.56	32,389.14
319-30	Jun-12	675.93	135.13	147.50	663.56	31,713.21
		7,858.96	1,873.76	1,335.00	8,397.72	
			5,233.95	4,052.50	1,181.45	



July 25, 2012

Brent Smith, CEO
Sierra Economic Development Corporation
560 Wall Street, Suite F
Auburn, CA 95603

Dear Mr. Smith:

During our year-end review of financial activities for the Town we noted that in seven out of the last out of the last twelve months, SEDCorp service fees have exceeded the interest earned on the Black Bear loan.

This calls into question the viability of our business loan program.

In order for us to better understand the costs of maintaining the Black Bear loan, please provide me with detail of the hours of work charged for the CEO on reports 319 - 20, 21, 24, 26, 28, 29 and 30.

Sincerely,

Rick Angelocci, Town Manager



Sierra Economic Development Corporation

Serving El Dorado, Sierra, Nevada, Placer, Plumas, Lassen, Sacramento, Yolo and Modoc Counties

Rick Angelocci, Town Manager
3665 Taylor Road ~ P.O. Box 1330 ~
Loomis, CA 95650

Dear Rick,

Thanks for your letter of July 25 regarding our fees for servicing the Town's loan program. It affords the opportunity to further the discussion I've been having with Gary Liss on the subject. Your conclusion that our fees have exceeded the interest earned on the Town's only loan over the last several months is accurate. Over the life of the loan, however, the loan has still earned more than \$1,300 more than the total of our fees, and the Town's principal invested in the loan continues to be repaid. The problems, of course, are that not enough loans have been made from the Town small business loan program, and the one loan that has been made has declining interest earnings as the loan is amortized. We have charged a minimal amount for the monthly loan invoicing, ACH processing, month-end accounting and management oversight; we have not charged for some things such as our Loan Supervisor's multiple conversations with the borrower.

The conversation with Gary has been oriented on how to make more loans, how best to get the word out about the availability of the program. We've discussed presentations to the Loomis Chamber of Commerce and others, trying to get some kind of article in the Loomis newspaper, and distributing information via the Town's billing and/or other administrative correspondence with the Town's businesses. Though I didn't discuss it with Gary yet, we also think we should revisit the interest rate structure written into the program management agreement so as to provide greater incentive for participation in the program, better return on the Town's investment and improved security. The key to more success with the program is deploying more capital. With typical economies of scale, the additional overhead for managing more loans up to the limit of the funds available would be insignificant.

I hope this response helps, Rick. I'd really like to sit down with you, your finance director and our Loan Supervisor and sort through whatever we can think of to improve the program. I'll be out of the office next week (8/6-10), but please let us know what will work for you as soon as possible thereafter. Thanks very much.

Sincerely,

 RECEIVED

Brent Smith
CEO

AUG 06 2012

TOWN OF LOOMIS