

Memorandum



CITY OF DALLAS

DATE December 6, 2019

TO Honorable Members of the City Council

SUBJECT **Termination of Small Business Loan Funds**

On Wednesday, December 11, 2019, the City Council will be asked to call a public hearing to authorize a substantial amendment to the FY 2019-20 Action Plan for the City of Dallas Community Development Block Grant (CDBG) Business Revolving Loan Program to terminate the program. The purpose of this memo is to describe the reasoning for terminating the program and next steps, which would include rolling over unexpended balances, and authorizing actions to wind down the existing portfolio.

HISTORY

Since 1989, the City has used a portion of its CDBG funds to operate a revolving loan program for small businesses (the "CDBG Loan Fund"). In 2010, the City also authorized \$1,000,000 of funding from the Public/Private Partnership Program to make small business loans (the "PPP Loan Fund"). Both loan funds were managed by the Southern Dallas Development Corporation (SDDC) until its merger with PeopleFund in 2015. PeopleFund has managed the two loan funds in recent years.

Prior to 2015, SDDC closed 202 loans totaling more than \$20 Million. Since 2016, PeopleFund has not closed any loans from the PPP Loan Fund and has only closed five loans from the CDBG Loan Fund. To address this lack of production, the most recent contract renewal with PeopleFund included a requirement to close a minimum of five new loans each year. Unfortunately, PeopleFund was unable to close any loans last year from either program. PeopleFund has also struggled to retain experienced community development officers to manage the City's loan programs.

Given the high overhead costs of the programs, coupled with the lack of loan production, staff determined that the program was no longer sustainable and opted not to renew the contract with PeopleFund. A short-term extension has been negotiated to allow time to transition to the existing loan portfolio without impacting borrowers.

EXISTING LOANS AND ACCOUNT BALANCES

There was a cash balance in the CDBG Loan Fund bank account of \$897,239.76 as of October 31, 2019. Additionally, there was a cash balance of \$916,766.41 in the PPP Loan Fund bank account as of October 31, 2019.

There are 13 active loans with a total balance of approximately \$1 Million. All of the loans mature in the next eight years. Six of the loans involve only CDBG or PPP funding, and can be easily transferred back to the city for management through maturity. The

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remaining seven loans are syndicated, meaning that they are funded by a combination of CDBG and/or PPP, plus non-city funding from PeopleFund. A snapshot of the loan portfolio as of November 30, 2019 is included below:

	CDBG Balance	PPP Balance	PeopleFund Balance	Total
OAC Construction	52,787.08			52,787.08
Yorktown Spanish	59,707.01			59,707.01
Cohost LLC	81,277.84			81,277.84
Enrique Castillo	19,936.83	39,985.83	39,947.85	99,870.51
Coverall Management	26,963.58	58,404.98	114,237.10	199,605.66
Terrence G. Maiden		14,046.35		14,046.35
On-Target (2)	34,859.51	36,352.62	48,468.54	119,680.67
Evans Engraving	6,084.70			6,084.70
Stanley E. Francis	4,459.30		7,032.99	11,492.29
ALTO	57,661.27			57,661.27
Rene Alvarez	111,889.66		112,040.22	223,929.88
Alemu Temesgen		13,394.84	13,398.58	26,793.42
Rina Investments	4,620.14	13,860.52	13,665.09	32,145.75
	460,246.92	176,045.14	348,790.37	985,082.43

NEXT STEPS

Federal regulations and the City’s Citizen Participation Plan require a public hearing to authorize a substantial amendment to the HUD FY19-20 Action Plan and require that a public hearing be held with not less than a 30-day public review and comment period to allow for public comments and input with respect to any substantial amendment. The public hearing will be authorized at the December 11 council meeting and held at the January 22, 2020 meeting.

At the January 22 meeting, council will also be asked to authorize the following actions to wind down the program:

1. PeopleFund will assign all loan documents to the City of Dallas and return the cash balance of the CDBG and PPP Loan Fund bank accounts.
2. The cash balance in the CDBG Loan Fund bank account will be returned to the U.S. Department of Housing and Urban Development (HUD) as program income.
3. The cash balance in the PPP Loan Fund balance will be used as follows:
 - a. \$460,246.92 will be used by repay HUD the CDBG balance of the loan portfolio as shown in the chart above.

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- b. \$348,790.37 will be used by buy PeopleFund's portion of the syndicated loans as shown in the chart above.
 - c. The remainder of approximately \$100,000 will be deposited into the City's Public Private Partnership Fund account.
- 4. From the date of the assignment through maturity of the final loan, the loan portfolio will be managed by the Office of Economic Development.
 - 5. By converting the entire loan portfolio to the PPP Loan Fund, future payments will not have to be split between the City, HUD, and PeopleFund. Rather, all future payments will be deposited into the City's Public Private Partnership Fund account.

After final adoption of the City of Dallas Economic Development Strategic Plan, staff will develop new small business programming for consideration by the Economic Development committee. Potential funding for new programming could include the funds deposited into the City's Public Private Partnership Fund account as described above. Additionally, on May 22, 2019 by Resolution No. 19-0803, the City Council set aside \$2.5 Million in 2017 general obligation bond funding to support small business in southern Dallas. Those funds have not been awarded to any third-party and could be available to support new programming.

Should you have any questions, please contact Courtney Pogue, Director of the Office of Economic Development, at Courtney.pogue@dallascityhall.com or at (214) 670-1685.



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