



**Council Agenda Item  
December 21, 2020**

**9. AUTHORIZATIONS**

- (e) Consider authorizing the city manager to negotiate and execute a professional services agreement with a company for the administration of a small business loan program on behalf of the City. (*Proposed presenter: Assistant City Manager Bill Atkinson*)

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Background information attached as follows:

Cover Memo – **Updated 12.18.2020**

PowerPoint Presentation – **Received 12.18.2020**



## CITY COUNCIL AGENDA ITEM COVER MEMO

December 21, 2020

**To:** Mayor and City Council  
**Agenda Item:** 9(e) Consider authorizing the city manager to negotiate and execute a professional services agreement with a company for the administration of a small business loan program on behalf of the City.  
**Submitted by:** Bill Atkinson, Assistant City Manager

### SYNOPSIS

The provision of a Small Business Loan Program funded by the City of Missouri City General Fund at \$1.5M that will leverage approximately \$15M for capital and real estate investment. The funding will cover two programs aimed at assisting small businesses throughout the city with a focus of a percentage of the funds to be determined to be focused on Texas Parkway and Cartwright Road commercial corridors and the remainder for other qualified small businesses throughout the city.

### STRATEGIC PLAN 2019 GOALS ADDRESSED

- Create a great place to live

### BACKGROUND

Staff is recommending, for a fee of \$1,500 per month, contracting with BCL of Texas to provide monthly turnkey loan services that include administrative program operations, marketing, loan payment processing, portfolio management, and loan servicing. BCL of Texas shall maintain records and submit monthly reports, quarterly, and annual reports in regard loan fund recapture. BCL of Texas will assist the City of Missouri City to promote the program through collateral material design and marketing plan strategy development. Additionally, per loan inquiry and completed application BCL of Texas will originate, underwrite, close, fund and service the Missouri City loan programs per its standard CDFI underwriting loan policies.

In order to put this program into place, tonight's item is the first in a four step process to having in place a Small Business Loan Program.

- Step 1: Tonight, present the framework as to how the Small Business Loan Program is funded and leveraged in order to provide a loan pool for qualified small business applicants. The City Council will review, recommend and approve of the frame work of the program.
- Step 2: Once the framework is agreed upon, BCL of Texas will come back to present the loan criteria and underwriting parameters BCL of Texas will use for execution of the program. At that time staff will be seeking approval from City Council of the program.
- Step 3: Once the parameters are determined, then BCL of Texas will develop and provide the marketing material outlining the program parameters and launch.
- Step 4: Loan evaluation and funding by BCL of Texas will begin along with on-going reporting.

As previously discussed, the provision of a small business loan program for qualifying Missouri City residents will be two-fold.

1) Missouri City Small Business *Loan Fund with allocating a percentage of the fund of \$500,000 to qualifying businesses in the Texas Parkway / Cartwright Corridors and the remainder available for qualified small businesses throughout the city.* The City's allocation of the \$500,000 has the capacity to leverage ten times this investment or \$5,000,000 with the injection of funds in the first position by banks, the second position by BCL of Texas/ 504 Loans and the City in third position with funding from the City's Revolving Loan Fund (RLF).

2) Missouri City *Commercial Real Estate (CRE) Loan Fund would allocate a percentage of the \$1,000,000,* created to support redevelopment along the Texas Parkway and Cartwright Road with the remaining percentage of funds available for qualified small businesses throughout the city. The City's allocation of \$1,000,000 will be utilized to leverage bank lending and SBA 504 Loan pool funds totaling approximately \$10,000,000 in available capital.

In total, the CRE Fund loans will be tandem loans with the U.S. Small Business Administration 504 commercial real estate loan program and bank loans. So in the following illustration, with the leverage of the SBA, Bank and City Revolving Loan Fund (RLF), the total loan pool for both programs will be approximately \$15,000,000 available to loan.

**Capitalizing Commercial Redevelopment\***  
**\$1.5 million is leveraged 10 times**

Bank Loans	\$7,000,000	50%
BCL/SBA 504 Loans	\$6,000,000	40%
Missouri City RLF**	<u>\$1,500,000</u>	<u>10%</u>
<b>TOTAL</b>	<b>\$15,000,000</b>	<b>100%</b>

\* Commercial Real Estate (CRE) only. This example does not include new payroll, new property taxes and working capital that the business is also injection (operating funds).

\* 504 business borrowers tend to be very strong financial credits.

\*\*The business can use their funds for working capital or a portion of revolving loan fund (RLF) can be used for working capital.

\* CRE only. This example does not include new payroll, new property

As represented above, the City will be leveraging both bank and SBA 504 Loans to provide available loan capacity of up to ten time (10x) the Initial program guidelines will include the following recommendations:

- Flexible underwriting is encouraged for small business working capital loans and have a ceiling of \$100,000,000.
- The CRE Fund loans will have a ceiling of \$250,000 for the City, but will leverage potential funding of \$2,500,000 from bank and SBA participation. For CRE Loans, startup businesses will be eligible to receive 5% as equity in a third lien position.
- Expanding CRE loan borrowers with 2 or more years of operating experience can qualify for up to 10% of the equity injection not to exceed \$250,000 of the City's portion and a potential total of \$2,500,000 with leverage of BCL/SBA and the bank with the City in a third lien position.
- The interest rate for CRE Fund loans will match the SBA 504 closing interest rate.
- Each loan in the program will require dual approval from BCL Loan Officer and Missouri City, City Manager.
- Borrowers, co-borrowers, and guarantors will be required to a personal financial statement of all business principals owning 20% or more of a business.
- Borrowers, co-borrowers, and guarantors will adhere to a credit report review to verify personal strength of the borrower, determine liabilities and or collateral pledge.

The Following types of loans are recommended for eligible activities for Missouri City Small Business. This loan pool will be funded with \$500,000 from the City and leveraged at roughly (10x) through the bank and BCL of Texas/SBA or \$5,000,000.

- Working capital (purchase of raw materials, inventory, rent, utilities, and other expenses identified for business operations)
- Machinery and equipment
- Commercial Real estate improvements (including soft costs)
- Purchase and improvements to Commercial Real estate

The Following types of loans will not be eligible activities for any Missouri City commercial loans:

- Debt Service of personal debt and payment of salaries of the business principals
- Construction of buildings for the general conduct of government
- CITY OF MISSOURI PROFESSIONAL CONTACTOR AGREEMENT 10
- The financing of political activities
- Speculative ventures

**BUDGET/FISCAL ANALYSIS**

Funding Source	Account Number	Project Code/Name	FY 2021 Funds Budgeted	FY 2021 Funds Available	Amount Requested
General Fund	101-56409-10-109-	Economic Development Expense	\$1,590,000	\$1,590,000	\$1,500,000

**Purchasing Review:** Shannon Pleasant, CTPM – Procurement & Risk Manager

**Financial/Budget Review:** *Bertha P. Alexander, Budget & Financial Reporting Manager*

*Note:* Compliance with the conflict of interest questionnaire requirements, if applicable, and the interested party disclosure requirements (HB 1295) has been confirmed/is pending within 30-days of this Council action and prior to execution.

**SUPPORTING MATERIALS**

1. September 21, 2020 presentation by BCL
2. Regular meeting minutes from 10-5-2020
3. BCL Administration of Community Revolving Loan Funds
4. December 7<sup>th</sup> presentation

**STAFF'S RECOMMENDATION**

Staff recommends the City Council review the recommendations and provide any recommendations they would like seen to the Small Business Loan Program framework.

**Assistant City Manager Submittal:** Bill Atkinson

**Assistant City Manager/  
City Manager Approval:** Odus Jones, City Manager



## Business Development Loans

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Small businesses have historically lacked access to business credit.

A local loan fund can grow local Missouri City businesses.

Recaptured loan payments will revolve and be available to lend to other local Missouri City, small businesses

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### Why a local loan fund:

- Traditional local bank financing is difficult for small businesses to secure.
- Bank financing requires a higher amount of equity injection 20-30% and higher.
- Local loans at lower rates provide the borrower funds for business growth
- Left with no choice small businesses often resort to family and friends for capital
- Also, many businesses secure to Hard Money loans at excessive interest rates.
- A local loan fund can target commercial redevelopment areas
- Jobs creation & retention
- Grow the local tax base
- Leverage new investment into the city

Let's invest in  
our underserved  
business  
community

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## Support local business with two Loan programs

**Small Business**  
city wide Loan Fund  
\$500,000

- Loans up to \$50,000
- WC, Leasehold imp, FF&E
- Loans with flexible eligibility criteria

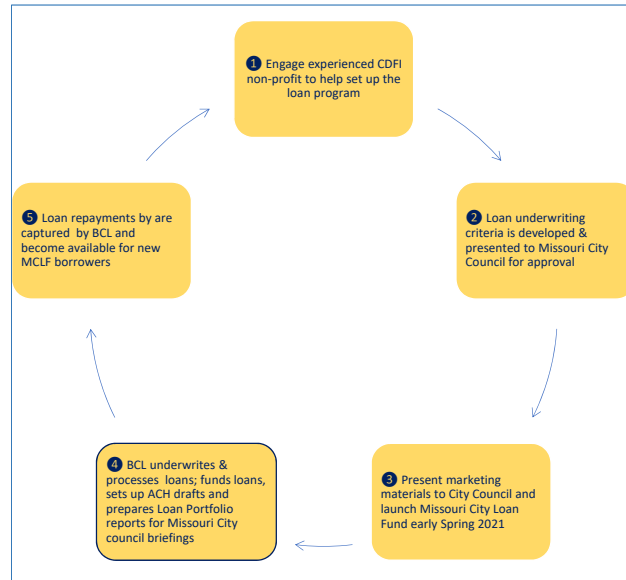
**Texas Pkwy &  
Cartwright corridor**  
\$1,000,000

- Owner occupied **Commercial Real Estate (CRE)**
- Up to \$200,000 MC loan + Bank+ SBA 504 loans
- 3rd lien behind SBA CRE loan

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## Missouri City Loan Fund loan program guiding principals:

- Invest in local business growth by providing “right priced” access to capital
- Leverage the MSLF capital with private capital sources.
- Use MCLF capital to target investment in redevelopment areas
- Provide capital to businesses throughout Missouri city
- Recapture loan funds to help grow more Missouri City businesses



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## Why contract with BCL a non-profit lender

Missouri City does not have an Economic Development Corporation.

Missouri City staff are not certified in business lending.

Missouri City has no history underwriting business loans, servicing business loans, and collecting business borrower loan payments.

Missouri city has no collection systems in place to capture principal and interest repayments and to redeploying capital for new business loans

- ✓ BCL is a full service non-profit statewide Economic Development Corporation.
- ✓ BCL 20 years certification by U.S. Treasury as a CDFI (Community Development Finance Institution).
- ✓ 30 years designation U.S. Small Business Administration for business lending.
- ✓ BCL has software and trained staff experienced in loan payment administration and redeployment
- ✓ BCL administers loan programs for banks, cities, economic development corporations and federal government

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# Leverage \$1,500,000

Citywide \$500,000 Missouri City Loan Fund x 3

## Example of private sector leverage

Owner Equity	\$30,000	15%	private	} 75% leverage \$150,000
Landlord tenant allowance	\$45,000	23%	private	
Bank Loan Vehicle, FF & E	\$75,000	38%	private	
MC Loan for Working Capital & Leasehold Improvements	\$50,000	25%	public	25% \$50,000 x 3 times leverage
<b>Total</b>	<b>\$200,000</b>	<b>100%</b>		<b>100%</b>

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## Why a local loan fund matters

Traditional loan			Missouri City Loan Fund				
		mo. Payment			mo. Payment		
38%	Bank	\$ 75,000	\$2,318	38%	Bank	\$ 75,000	\$2,318
23%	Tenant Allowance	\$ 45,000	\$0	23%	Tenant Allowance	\$ 45,000	\$0
40%	Borrower Equity	\$ 80,000	\$0	15%	Borrower Equity	\$ 30,000	\$0
		<u>\$200,000</u>	<u>\$2,318</u>	25%	MC Loan	\$ 50,000	\$1,416
						<u>\$ 200,000</u>	<u>\$3,735</u>

payment is higher but customer only contributes 15% instead of 40%

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# Leverage \$15,000,000

\$1,000,000 Missouri City CRE Loan Fund x 15

First Market

Texas Pkwy & Cartwright Corridors



Example CRE private sector leverage

Bank commercial real estate (CRE) loan	\$ 1,600,000	50% private	} 94% leverage \$ 3,000,000
SBA 504 Loan <i>owner operated</i> real estate loan	\$ 1,280,000	40% private	
Owner Injection	\$ 120,000	4% private	
MC CRE Loan	\$ 200,000	6% public	6% \$ 200,000 x 15 times leverage
<b>TOTAL</b>	<b>\$3,200,000</b>	<b>100%</b>	<b>100%</b>

\* standard SBA 504 loans requires 10% owner injection. This example owner injection is 4%

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## Targeted Commercial Corridor Redevelopment Texas Parkway & Cartwright Rd

Example Owner Occupied Real Estate  
SBA 504 loan structure:

Bank	50%	\$400,000	1 <sup>st</sup> lien
BCL/SBA	40%	\$320,000	2 <sup>nd</sup> lien
City RLF*	10%	\$ 80,000	3 <sup>rd</sup> lien
<b>TOTAL</b>		<b>\$800,000</b>	

\*City portion is a loan. This allows the business liquidity for working capital.

The city's loan interest rate to match the SBA loan rate. In this example BCL/SBA interest rate is 1.7%

Commercial Real Estate can include new construction or acquisition. Must be owner occupied. This program not for investment properties. Borrower must create/retain jobs



### Another BCL of Texas SBA 504 LOAN!

- Commercial real estate loan located in an Opportunity Zone
- Childcare business in Elgin, TX
- \$800,000 loan for 2nd location
- Bank partner: First National Bank of Eagle Lake

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## Loan Fund Administrator: BCL of Texas



### **BCL a 30-year trusted leader in business development lending**

- ✓ BCL of Texas to develop lending criteria & marketing strategy for council approval.
- ✓ BCL to create loan application and draft closing documents for both programs.
- ✓ BCL to set up internal operating plan and dedicate staff to administer the Missouri City small business loan programs.
- ✓ BCL begins a marketing campaign to promote the loan programs across the Missouri City business community.
- ✓ BCL underwrites, processes, closes, funds the loans and collects loan payments.

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**Business &  
Community Lenders  
of Texas**

# bcl

Mission: Building strong communities

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