Revolving Loan Funds: A Report for the Hinesburg, Vermont Municipal Government

Section: Executive Summary

As part of the 'Building Sustainable Economies' course by Rhonda Phillips, our group is working with Hinesburg Town Manager, Joe Colangelo. Several years ago, there was a fire within a local factory that eliminated the Saputo Cheese business. The town of Hinesburg was approached by a business out of Barre, VT looking to expand into this facility, VT Smoke and Cure. In response to their interest and through various business discussions, the town of Hinesburg was recently awarded a Development Block Grant for $520,000 with the intent of lending these funds to Vermont Smoke and Cure. Joe Colangelo is charging our group with the task of identifying community and strategic alliances who would work in the non-profit sector in collaboration of this development. The goal of this non-profit would be to give input based on community and other local business concerns and ideas.

We believe that there is opportunity within Vermont to create this committee with support from the state of VT agencies and non-profit organizations, such as: the VT Village Designation program, Community Capital of Vermont, neighboring towns, etc. In the following paper, we discuss our understanding of the revolving loan fund, potential strategic partnerships and the opportunities they create. Our objective is to provide information on resources available, alternatives, supporting cases and research, and our suggested approach.

Section: Hinesburg Block Grant and Vermont Smoke & Cure Overview

The town of Hinesburg is lending $520,000 from the Community Development Block Grant (CDBG) program to Vermont Smoke and Cure (VSC) to invest in the abandoned Saputo plant's infrastructure. This funding is part of a larger capital campaign run by VSC with the goal to receive $1M in equity, $600K in subordinated debt, and $2.5M of debt in facility investment. The CDBG funding requires that workers of low-to-moderate income be hired by VSC; which fits VSC's hiring history and plans. VSC plans to hire 13-14 employees upon opening the plant in Hinesburg, as well as another 13 employees over a two-year period after opening. VSC will be repaying the town of Hinesburg over a number of years. Hinesburg hopes to use a revolving loan fund to recapture part of the original CDBG to be able to continue giving loans for ongoing economic development projects.

<u>Section: RLF Concept Overview</u>

The Revolving Loan Fund (RLF) allows communities to retain capital from the U.S. Department of Housing and Urban Development (HUD) CDBG program to continue investing in their community. The town must repay 50% of the loan principle back to the Vermont Community Development program (VCDP). The rest of the principle and the original loan interest is then reloaned to continue investment in the community. The program was designed to be an engine for community economic development and as such has certain requirements. Excluding reasonable administration costs, at any one time at least 25% of the RLF must be in use. If 25% is not disbursed, the RLF will become inactive and the VCDP may recapture the funds after 60 days notice. In addition, future applications to the CDBG will include that the RLF was inactive and reclaimed. In regards to future CDBG applications, if the town of Hinesburg pursues more block grants in the future they must use 20% of the available funds from the RLF as a match.

The CDBG program does not want to reclaim the money and tries to work with communities with inactive accounts to become active before reclaiming the funding. First generation loans and all loans disbursed by the town must follow the CDBG program and target low income, slum cleanup, and other specific targets set forth in the CDBG program. Repayments on loans disbursed by a nonprofit community development organization (NCDO) on behalf of the town of Hinesburg are not subject to the CDBG program. The repayment is considered unrestricted revenue, and federally, only requires compliance to Title 1 of the Housing and Community Development Act, State regulations may vary.

Many communities without dedicated community economic development offices and staff will choose to subgrant their funds to a NCDO. One reason for this is that the RLF and CDBG program can have a lot of intensive and specialized reporting that most small communities are unequipped to handle. A NCDO may be either a public or a private organization charged with managing the RLF, however ultimate responsibility still lies with the municipality. For example, if the NCDO allows the funds to become inactive, the VCDP may recapture the funds. Another advantage of subgranting to a NCDO is that the repayments and interest become unrestricted revenue (follows Title 1 of the Housing and Community Development Act) while if maintained by the municipality shall be considered program income (Follows Title 1 of the Housing and Community Development Act as well as extra restrictions placed on the CDBG program). The first option for subgranting funds is to initially channel the funds to a NCDO who will originate the loans. (It is unclear but appears that Hinesburg is past this stage as our information suggests the municipality originated the loan.) The second and third options, the municipality originates the loan but either, before the completion date of the grant agreement (option 2) or after the completion date of the grant, agreement (option 3) transfers all notes and security to the NCDO. The disadvantage of the latter two is that since the municipality originated the loans the second-generation loans must follow loaning and granting rules of program income.

Section: Research Results

A number of communities in the State of Vermont utilize or create Revolving Loan Funds for a variety of needs. A specific example of an agency that oversees multiple RLF's is the *Community Capital of Vermont group*[1], founded in 1995. This organization manages several communities' revolving loan funds, as well as their own; the CCV is currently overseeing Huntington, Barre, and Colchester's RLF's. A similar option is the Vermont regional planning commissions. The Central Vermont Regional Planning Commission has managed over $5,000,000 for their respective communities. Having a third party or group managing RLF's is often necessary when a community does not have the time or employee skill sets available to manage the funds themselves. Those Vermont communities that do create and manage their own revolving loan funds include the town of Johnson, which initially created their RLF for the "removal of slums and blights and or the rectifying health and welfare threats to the community[2]", though these restrictions were subsequently removed. Johnson and other communities' business loan application documents are often posted online for local businesses and groups seeking funds from an RLF.

Some cities and towns borrow from Vermont State agencies such as the *Vermont Department for Environmental Conservation* for such issues as municipal compliance with storm water runoff. The State of Vermont also has statutes on record establishing the creation of revolving loan funds for such items as municipal equipment (Title 29 Public Property and Supplies, Chapter 61 *Municipal Equipment Loan Fund*[3]), from which many municipalities, including Essex Junction, have borrowed. Other municipalities manage and oversee revolving

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1 http://www.communitycapitalvt.org

2 Village of Johnson Community Improvement Revolving Loan Fund Priority Guidelines; www.townofjohnson.com

3 http://www.leg.state.vt.us/statutes/fullchapter.cfm?Title=29&Chapter=061

loan funds themselves or in tandem with other towns and cities to assist small business owners or owner-occupied housing rehabilitation. Often times, third party agencies in Vermont will manage these revolving loan funds for one or more municipalities.

Section: Recommended Action

Recommendation 1. Community Capital of VT Alliance

Given the size and available return on the CDBG funding to set up a revolving loan fund, as well as the time and available resources of Hinesburg municipal staff it is recommended that the government of Hinesburg, at the recommendation of the Town Manager with approval of its Selectboard, contact a third party agency like Community Capital of Vermont to help in the establishment and management of a revolving loan fund. These funds would be used to facilitate economic and community development within the borders of Hinesburg, to be loaned to small businesses and for housing rehabilitation. The funds should target low- to moderate-income individuals in order to both maximize the efficacy of the funds invested and to facilitate equity within the municipality. The funds should be used to help new business or project owners (especially those with little or no credit history or access to traditional financial institution's funds) achieve financial independence, enabling these owners to eventually establish themselves in the community, subsequently allowing them to secure further loans from banks, credit unions, etc. as necessary. It is important that the initial revolving loan fund contain enough starter capital; consultation with Kara Edson, the Loan Administrator for Community Capital of Vermont, is recommended.

Recommendation 2. Designated Hinesburg Village Partnership Organization

During the class visit to Hinesburg, we heard the need for community input and capital building. After review of the downtown designation program website map, the location of the Saputo Plant appears to be within the designated Village program limits. The downtown village program is supported by a partnership with Preservation Nation and state agencies, such as the VT state department of labor. Benefits this organization provides to designated municipalities and private sectors working within the downtown limits, includes: (1) 10% Tax Credit for Substantial Rehabilitation of Certified Historic Buildings, (2) 25% Tax Credit for Façade Improvements, and (3) 50% Tax Credit for Code Improvements.[4] The requirements to receive these benefits are discussed in more detail within Appendix B. Part of the requirements for the downtown designation program is to create a non-profit community organization to support village economic promotion, community development, and design. Community 'buy-in' and support seems pivotal with the development efforts in Hinesburg. Appendix A describes a successful and current case of developing a downtown designation board in the City of Winooski, VT. A similar Village designation board could support initiatives to create a 'collaborative advantage' for Hinesburg businesses and earn tax benefits for the town and developers. One disadvantage to this approach is an extremely valuable resource, time. It takes time to foster relationships and build capacity. It is uncertain whether a designated village community board could be developed within the time constraints to bring in VT Smoke and Cure. However, a time of change is an opportunity to call community members to action.

4 http://www.historicvermont.org/programs/designatedvillagecenters.htm

Recommendation 3. Food Incubator

In our meeting with Hinesburg town manager, a food incubator being incorporated into the Saputo facility was considered. As VSC, a cheese producer, and possibly a milk producer were also already in line for further space in the Saputo facility a food focused industrial/commercial complex, seems fitting. As incubator companies are often small, an alternative to the standard RLF is to setup a micro-business revolving loan fund. Although this restricts who is eligible to receive secondary grants the municipality is eligible to retain the entire block grant for the RLF. This setup could work very well for a food-based incubator. Regardless of the whether the RLF was designated as a micro-business revolving loan fund or not using the fund or a portion of the fund to create a food incubator has much potential. One potential option for the creation of a food incubator would be to create a non-profit corporation. As a non-profit, a portion of the RLF could be granted as seeder money for the organization and the remaining funds could be used as loans to the private businesses in the incubator program.

Conclusion

Hinesburg will have the ultimate responsibility for managing the RLF. Through our research we have found that using a third party has both administrative and financial benefits. The decision on how the RLF will be used depends greatly on the style of community economic development that Hinesburg wishes to pursue. The RLF can be given out in large chunks to support bringing in business as in the case of the VSC but it could also be used with an incubator program to grow new, local companies. The CDBG and RLF have seeded Hinesburg with some funding that can be used to pursue increased development. It is our hope that the community has an opportunity to be active participants in the decision making for the use of the RLF.

APPENDIX A. WINOOSKI COMMUNITY PARTNERSHIP CASE

Onion City in Bloom

Winooski capitalizes on its hip new residents to prove itself "more than just wild leeks"

In 2004, an ambitious $160 million Winooski Falls neighborhood was made possible by a partnership between the City of Winooski, the State of Vermont and private-sector developers HallKeen and The Braverman Company. [1]This neighborhood development was able to realize tax benefits if it incorporated a non-profit downtown development group who supported the Downtown Preservation Program. This non-profit was created in 2005 and named the Winooski Community Partnership. The developers were also able to earn grant funds to hire an executive director to lead this downtown development non-profit comprised of Winooski business owners and community members. With the developers and executive director living 'out of town', connecting to the community with the original intent of the program was lost. It looked great on paper, but there were little results and benefits realized by the community. By the fall of 2010, the hired executive director had left and the Winooski Community Partnership (WCP) was re-energized by a new group of six business owners, two City representatives, and an active church member. Everyone in the new group lived and worked in the community.

The newly formed WCP set out to re-write the bylaws and develop a workplan focused on the original organization's initiatives: (1) promotion, (2) design, (3) community, and (4) organization. After 8 months of collaboration with local groups, the WCP's initiatives were featured throughout papers and news programs, i.e.:

"Over the past few months, Winooski has launched a rebranding campaign, complete with a design-forward new logo and community-building events such as the YMCA's Winooski on Foot, a summer marathon in stages starting June 29, and the Winooski Pop-up Gallery, a community art project organized by Kasini House, beginning June 23. These efforts, along with a retooled farmers market, are in part the work of the reenergized Winooski Community Partnership, a downtown business organization aimed at making the city an attractive, vibrant urban center." Lauren Ober, 2011.[2]

The Winooski Community Partnership is a great example of how Bovaird defines a public-private partnership (PPP); "*working relationships based on mutual commitment (over and above implied in any contract) between a public sector organization with any organization outside of the public sector*" (2005, 200). The WCP member relationships are dynamic and layered based on interests outside of the group in both private and public sectors. Through this network, there exists a common thread and strategic alignment for community and economic development, promotion and design of downtown Winooski.

One of the WCP's top priorities for this fall is to address the 'lack of parking issue' in Winooski. Due to the amount and speed of development growth, there is a perception that Winooski's parking has been lost. However, if you enter the parking garage during the day or at night, there are numerous spaces available. We believe that there is a solution to increase accessibility and walkability with smart growth strategies without constructing additional parking spaces. The European Commission (2003) has noted that 'recent years have seen a marked increase in cooperation between the public and private sectors for the development and operation of environmental and transport infrastructure'. (Tony Bovaird, pg. 3) [3] This is also the case in Winooski where a collaboration between residents, businesses, the City, and the WCP are working together on innovative transportation systems and preservation of natural habitat through sustainable land use planning.

Tony Bovaird goes on to discuss in his article, *Public-Private Partnerships: from Contested Concepts to Prevalent Practice*, "one must accept that collaborative behavior may not be a substitute for competitive behavior but that it may rather concentrate on finding a local optimum, which is a step along the pathway to finding a more distant 'wider optimum'. More specifically, it is possible to argue that only when all participants have become expert in achieving 'collaborative advantage' with their partners is it likely that the partnership as a whole will be able to gain competitive advantage against other rival partnerships (Huxham, 1993; Kanter, 1994; Faulkner, 1995)." (pg.10) Winooski got a taste of this concept through two initiatives in the summer of 2011: (1) the Pop Up Art Gallery and (2) the Winooski on Foot Marathon. The Pop Up Art Gallery was coordinated by Kasini House with support by the WCP. This gallery showcased local art pieces and had over 650 people at a Friday night grand opening. 75% of the opening night attendees were outside of the Winooski community who purchased a large amount of the artwork on display. Many of the local business owners who volunteered to support this gallery realized a 'collaborative benefit' when gallery members came to eat at their restaurants, purchase from downtown stores, and asked about real estate within the area.

The Winooski on Foot Marathon is another example of 'collaborative advantage'. The YMCA supported by the WCP created a multiple leg marathon where a leg of the race (approximately 3-

5 miles) would be completed on a weekly basis. Each week a leg of the race would begin and end at a sponsoring business in Winooski. This collaboration promoted healthy lifestyle, the walkability of Winooski, and brought individuals to downtown business storefronts.

By engaging the community through PPPs as seen in the Winooski Community Partnership case, we can increase a community's currency: trust and reciprocity. "As Robert Axelrod (1984) famously said, trust and reciprocity "lengthen the shadow of the future" and reward those who choose to cooperate because people want to work with them again; therefore, the more trust and reciprocity in the network, the greater the ability of the network to accomplish shared goals. The task of network managers is to increase the stock of trust and reciprocity by creating incentives (using resources) and to increase their collaborative skills to build relationships within the network to accomplish network goals." (pg. 14) [5]

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[1] Hall Keen Developers, 2010.

[2] http://www.7dvt.com/2011winooski

[3] Tony Bovaird, *Public-Private Partnerships: from Contested Concepts to Prevalent Practice*, 2004, Sage Publications, Thousand Oaks, CA.

[4] H. Brionton Milward, Keith G. Provan; *A Manger's Guide to Choosing and Using Collaborative Networks*, 2006, The IBM Center for the Business of Government.

[5] H. Brionton Milward, Keith G. Provan; *A Manger's Guide to Choosing and Using Collaborative Networks*, 2006, The IBM Center for the Business of Government.

APPENDIX B. VILLAGE DESIGNATION BENEFITS

Hinesburg is a designated village center. Village center designation, as provided for in 24 V.S.A. chapter 76A, was created by the legislature to recognize and encourage local efforts to revitalize Vermont's traditional village centers. While village center revitalization is an ongoing process to improve a community's vitality and livability, village center designation is only one tool and its focus is on supporting commercial activity in the center of Vermont's villages. Communities who pursue village center designation are encouraged to undertake other activities that support long-term revitalization.

Since its inception in 2002, the Vermont village center designation process recognizes and encourages local efforts to revitalize Vermont's traditional village centers. Village centers are the traditional center of the community, typically composed of a cohesive core of residential, civic, religious, and commercial buildings arranged along a main street and intersection streets. Benefits to property owners, business owners, lessees and the village are briefly described below with contact information for each.

10% Tax Credit for Substantial Rehabilitation of Certified Historic Buildings: A state income tax credit of 10% for the costs of substantially rehabilitating a certified historic building is available as an "add-on" credit for projects that qualify for the 20% Federal Rehabilitation Investment Tax Credit (RITC). Projects qualifying for the 10% credit will thus receive a net 30% credit. The federal RITC is available to owners and lessees for project costs that meet or exceed the adjusted basis of an income-producing building that is on or becomes listed on the National Register of Historic Places. The credits are for all costs involved in rehabilitating a building, including exterior and interior improvements, code compliance, plumbing, and electrical upgrades. An applicant may request the tax credit allocation in the form of a Bank Credit Certificate, which a bank may accept in return for cash, or for adjusting the rate or term of the applicant's loan on the building. Maximum award is $50,000.

25% Tax Credit for Façade Improvements: A state income tax credit of 25% is available for owners or lessees of buildings built prior to 1983 that undertake projects to rehabilitate a building façade or storefront that contributes to the integrity of the designated downtown, but does not qualify for the 20% Federal RITC and 10% State "add-on" credit (above). An applicant may request the credit allocation in the form of a bank credit certificate Minimum expenditure is $5,000, and the credit maximum is $25,000.

50% Tax Credit for Code Improvements: A 50% state income tax credit is available to property owners and lessees for the costs of bringing a building into compliance with state building codes, to abate hazardous materials, or to redevelop a contaminated property. It includes a maximum award of $12,000 for a platform lift, $50,000 for sprinkler systems, $50,000 for elevators, and $25,000 for the combined costs of all other qualified code improvements, as well as costs for hazardous material abatement and contaminated sites redevelopment. This credit may be used in conjunction with the other two credits, as long as the applicant does not request credits more than once on an eligible expenditure (i.e., no double dipping). An applicant may request the credit allocation in the form of a bank credit certificate.

• Designated village centers will be given priority consideration for all grants administered through the State's Municipal Planning Grant Program and the Consolidated Plan for HUD funding, including the Community Development Block Grant Program (CDBG). Designated village centers will be given priority consideration for all grants administered through the State's Municipal Planning Grant Program and the Consolidated Plan for HUD funding, including the Community Development Block Grant Program (CDBG).

- Designated village centers will be given consideration and priority by the State Building Department when leasing or constructing buildings, in consultation with the community.

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- A special assessment district in a designated village may use funds for operating costs in addition to capital expenses.

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Source; Leane Tingay (VT Downtown Program Coordinator).

APPENDIX C. VILLAGE OF ESSEX JUNCTION CASE

Research

The Village of Essex Junction where I work is involved with several Revolving loan funds, though we do not operate any as would Hinesburg. The state has a statute ordering the creation of a revolving loan fund for the purchase of construction/fire/safety etc. heavy vehicles, which Essex Junction has used to purchase a truck.

The state also in conjunction with the EPA has issued money from a revolving loan fund for an Essex Junction Pump station/Waste Water Treatment Facility upgrades (to fund the preliminary engineering). Essex Junction is in the process of applying for more funds from the same RLF for further upgrades to the WWTF and pump station (separately).

APPENDIX D. VERMONT COMMUNITY DEVELOPMENT PROGRAM - REPORT

Summer Study Report on Community Development Block Grant Revolving Loan Funds.

Available at www.leg.state.vt.us/reports/2010ExternalReports/254597.pdf