



TO: City of Racine Finance and Personnel Committee
City of Racine Common Council

FROM: Carolyn Engel, Business Finance Manager

RE: City Economic Development Administration EDA Revolving Loan Fund (RLF)

DATE: August 10, 2015

The purpose of this memorandum is to request that Racine County Economic Development Corporation (RCEDC) be allowed to pull more of the interest earned on the City of Racine EDA RLF in order to cover expenses related to administering these funds. Historically, 50% of interest earned through monthly loan repayments has been used to reimburse RCEDC for its administrative expenses and the other 50% has been returned to the fund for relending. The EDA which regulates this RLF allows us to draw funds for reasonable costs associated with administering and managing the RLF. This includes things like employee salaries, professional fees, marketing, staff training, rent, financial audit expenses, etc.

The RCEDC completed an analysis of the cost of administering the City EDA RLF. The amount being drawn from these funds is insufficient to cover RCEDC's expenses. Therefore we are requesting that effective April 1, 2015, which is the current EDA reporting period for administrative costs incurred, the RCEDC be allowed to draw the full amount of interest earned on these funds or the amount calculated by RCEDC's Accounting Manager as the cost to administer the fund, whichever is less. The analysis of administrative costs was based upon a combination of 2014 expenses and projected 2015 expenses in order to determine the best estimate at this time. The final amount drawn would be based upon actual figures during each six month reporting period.

The cost estimate calculated by RCEDC's Accounting Manager for administering each fund is as follows:

City RLF:

Annual Cost to administer the fund	\$70,439
Interest earned based upon last two reporting periods (equals 50% of interest earned)	\$14,741 (a)
Amount RCEDC is allowed to pull based upon EDA guidelines (100% interest earned)	\$29,482
Additional administration costs substantially not reimbursed	\$40,957 (b)

- (a) Monthly interest earned for each fund differs for every reporting period based upon actual payments received.
- (b) A small amount of the deficiency is reimbursed from processing fees charged to the Borrower.

Costs related to the City EDA loan are based upon number of loans being processed during that period and number of loans being managed for the fund as a percentage of RCEDC's overall portfolio and time spent on business lending.

The impact of RCEDC drawing more funds to reimburse for the cost of administration is there would be no interest returned to the funds for relending based upon the analysis above. Full principal amounts would continue to be returned to the RLF and would continue to revolve as new loans in the community.

The City Council is being requested to approve this request to use up to 100% of interest earned from monthly RLF loan repayments to reimburse RCEDC for administrative costs incurred.