

MILFORD CITY COUNCIL COMMITTEE
MINUTES OF MEETING
October 12, 2015

A Meeting of the Economic Development Committee was held in the Joseph Ronnie Rogers Council Chambers at Milford City Hall on Monday, October 12, 2015.

PRESIDING: Economic Development Committee Chairman Garrett Grier

IN ATTENDANCE: Economic Development Committee Members:
Councilman James Starling & Councilman Chris Mergner

Mayor Bryan Shupe, Councilwoman Lisa Ingram Peel.
Councilman Owen Brooks, Jr., Councilman Douglas Morrow
Councilwoman Wilson

Interim City Manager Jeffrey Portmann & City Clerk Terri Hudson

City Solicitor David Rutt

Milford Loan Forgiveness Program/Downtown Milford Master Plan Committee

City Planning Coordinator Rob Pierce was also in attendance.

Chairman Grier called the joint committee meeting to order at 5:35 p.m. and announced the purpose of this meeting is to discuss the economic development fund and the possibility of using it as a revolving loan fund to stimulate some economic development.

Mayor Shupe then reported that Seaford, Dover and Wilmington were selected as Downtown Development Districts (DDD) and have recently received some substantial funding as a result. The programs include private funding and the two are spurring private investment. He explained that this is what the city wants to do in downtown though other areas could be considered.

The question before the committee is how to use city money to partner with private investors to initiate larger projects. He reviewed some loan and grant programs and is now working with the USDA REDLG (Rural Economic Development Loan and Grant Program). He learned what funds are available at the federal level though the city also has an economic development fund. He wants to discuss how we can use city money to help in this endeavor.

He, along with City Planning Coordinator Pierce and Economic Development Committee Chairman Grier have met to discuss how this can be done.

Planner Pierce said through research, they determined there were three different ways this can be accomplished. One is a loan with a small interest rate which could be prime or prime minus one. Another option is zero percent loans where the business would be required to pay back the principal over a period time with no interest. Forgivable loans, based on established criteria, would tie into job creation or could be tax or revenue based. In this situation, the business would be audited each year to ensure it continued to meet that criteria. If met, we would defer the principal and interest payment. Once the obligation was fulfilled over the entire loan period, the entire loan would be forgiven and it would become a grant. If the business did not fulfill the obligation, it would give the city the ability to collect the loan along with any applicable interest.

He asked the committee which type program they preferred. He added that the terms need to be considered and if shorter terms would be appropriate for smaller projects; maximum loan amounts need to be established and \$100,000 maximum and \$20,000 minimums have been discussed.

Other issues that will need addressing are ways to secure the loans which would be based on the City Solicitor's advice.

Mr. Brooks asked how much money is left in the economic development fund; Interim City Manager Portmann stated approximately \$712,000.

Mr. Grier reported that when they met today, they felt \$500,000 would be a good start taking into consideration anything else that could already be earmarked. He would not want to deplete that account with a revolving loan fund.

Mr. Pierce suggested that if the city makes \$100,000 or \$200,000 available, the applicants would need to ensure they are qualified before they become part of the selection process. He said that any amount can be allocated depending on the project. Each year, the amount of money will be available as the account builds through land sales.

Mr. Brooks asked how the city would get their money back if the business failed; Mr. Pierce said he hopes they would have some collateral. However, that would only be the case if the owner purchased the property. Though the primary lender would fall in line first, the city could be second in line though we may not get the entire loan/interest back but should receive the majority.

He emphasized that the applicants would need to be carefully reviewed to ensure it is not a risky project. Some criteria could be added to ensure it is a safe investment for the city.

Mr. Grier said for example, if the project is worth \$1 million and they have \$.5 million in debt, another \$.5 million would be available in equity. He suggests some ratio be added so that the loan amount does not exceed their equity. In that manner, if the business fails, there will be some equity in assets to ensure the city is reimbursed. He said perhaps, the land, building or equipment can be considered as collateral. He agrees that a formula is required before any money is loaned. There is never a guarantee because the market changes daily.

Mr. Rutt noted that the city can also require personal guarantees. The company's principals should be required to sign personal loan guarantees so that this could not only impact the business, but the individuals who are repaying the loan.

Mr. Rutt reported there are two models in Delaware that can be followed. DEDO has a Delaware Strategic Fund initially set up with \$2.25 million. It provides monies to be loaned, granted or used with another financing mechanism within the State of Delaware. It specifically states the reasons why loans can be issued. It also establishes criteria for the application process. Of the \$2.25 million, up to \$1 million can be loaned per year. A cap of what can be loaned per year can also be established. In that manner, there are always funds available for the following year.

Mr. Grier pointed out that some are grants and some are loan monies. He asked if they are generating enough interest to grow the account; Mr. Rutt does not know that answer.

Mr. Pierce believes they may receive some federal funding that can be used toward the grant portion. In addition, the revolving grant would finance a portion as do other state programs.

Mr. Grier emphasized the need to apply with DEDO for the DDD program again in January.

Ms. Peel said she was at an economic summit recently that highlighted Seaford, Dover and Wilmington DDD programs. She explained that we need to be able to negotiate and feels we need to be at the point, where we have a plan and are ready to ask investors to come in. She noted that Ben Muldrow and Associates stated numerous times that Milford needs to leverage public and private investment. This requires negotiating powers. She saw what they were doing in those towns where incentive packages were used. She understands it may be financial though assistance can be provided to help them apply for other grants.

She feels it is important that the city do something to provide some leverage when a business comes in, we can convince them this is the place they want to be and these are the reasons why.

Mr. Pierce commented that the city is putting together some incentives for the downtown area. They should be ready for the DDD application submission.

Several ideas have been discussed though we need to decide which are feasible. Some cities have provided tax abatements for a certain period of time, for example.

Ms. Peel then referenced the Project Start-Up which she said does not appear to have a lot of teeth considering the three-months of free rent after which the business could leave. Mr. Pierce feels that is more of a landlord issue.

Mr. Rutt then added that he also found a program called the Kent County Strategic Development Fund. It is very similar to the state's program though it is run by the county. They initially funded it with \$368,400. It has similar funding purposes including retention and expansion of existing firm, recruitment of new firms, formation of new businesses, working capital, renovation, construction, improvements, assistance with equipment, machinery, land, building acquisition, relocation expenses, loans or guarantees and several other things.

Criteria is then provided for the assistance.

Mr. Rutt found the committee has the authority to grant loans, complete grants or invest in the business. So it also gives them the right to become an equity partner to get them started.

He noted that the committee has one representative from the Town of Smyrna, City of Dover, City of Harrington and City of Milford.

Mr. Pierce said he worked at Kent County and is unfamiliar with the program. Mr. Rutt pointed out it is in the county code even though Mr. Pierce never heard of any projects receiving money.

Mr. Rutt believes it is a great model and instead of reinventing the wheel, we could use the model.

Mr. Pierce stated that the USDA had provided the city with a checklist with how to set up our own revolving fund if we receive the REDLG funding. However, it does not outline specific criteria.

Mr. Rutt said that in addition to the resolution, the state has promulgated regulations which really go in depth about the types, fees, application requirements and criteria approval. It also requires the applicant submit financial data, job creation, growth, etc. each year for five years. If they fail to submit this information or do not meet the loan standards, the loan can be called.

Mr. Pierce feels that is essential in order to get some funding back.

Councilman Morrow arrived at this time.

Mr. Rutt suggests using the Kent County model and adding the state regulations and requirements.

In regard to the initial funding, Mr. Grier recommends no more than \$100,000 per year; Mr. Pierce agreed. Mr. Mergner asked is this will be limited to the downtown area.

Mr. Pierce feels that as part of the scoring criteria, target areas would be awarded points. Downtown, business park and city-owned properties would be given preference. However, Mr. Grier does not feel it would be appropriate for city money to be used as the primary source of the funding. Instead, it should be considered a complimentary piece. He feels that if someone needs an extra five percent, that may be worth \$50,000 or \$100,000, versus their deposit.

As an example, Mayor Shupe said perhaps a restaurant may want to be built downtown and they have to get a loan from the bank. In order to qualify for the loan, 15% of the loan is required. He feels that we should consider being the source of that money. Perhaps they may put \$600,000 or \$800,000 in the project and the city would only be a small portion.

Mr. Mergner feels flexibility is the key word considering the various types of businesses, varying experience and varying levels of investments. He would like to encourage entrepreneurs or someone who may be starting a new business, because

they may have a more difficult time borrowing from a financial institution. He almost feels that it should be placed in a separate fund.

Mayor Shupe pointed out that a small business may need a sign or something that may only cost \$5,000. In his opinion, the preference should be on game changing projects. He feels a smaller business request should be directed to Downtown Milford, Incorporated who has a fund of approximately \$19,000 for similar requests.

In that manner, the city can focus on the larger projects that will bring prosperity to other businesses.

Mr. Pierce asked if the committee agrees they do not want to put in more than 50% of the project costs. Mr. Mergner stated no, considering the administrative work this will create. He feels that credit information needs to be obtained and security and personal guarantees are needed. Attorneys will also need to be involved.

Mr. Grier and Mr. Brooks both feel that is too high and Mr. Mergner agreed.

Mr. Pierce pointed out that a lot of these perimeters are established and that no more than 50% of the project will be funded. It was confirmed the projects were capped.

Mr. Grier recommends not going any higher than 25% which is still pretty deep considering the risks. Mr. Mergner agrees they are mainly looking for support and does not agree with funding the entire project or a large portion. Ms. Peel pointed out that 50% is more of a partnership.

Ms. Wilson arrived at this time.

Mr. Grier asked if the committee favored zero percent interest loan or a low rate such as 2%. That interest can then be loaned out to other businesses. Another option, would be to waive a percentage of the interest. He agrees there are several options that can be considered.

Mr. Mergner said he will not favor a zero percent loan. Mr. Pierce said we will at least get our money back with zero percent. If we forgive the loan, the city gets nothing back.

Mr. Grier also does not feel a loan of ten years is appropriate and nothing more should be considered. Ms. Peel feels five years is appropriate. In that case, the REDLG could also apply considering it is a five-year loan.

Mr. Portmann explained that their loan can be up to ten years, though the city can only borrow for five years without going to referendum based on the city charter. The USDA actually offers a ten-year, zero percent interest loan. Mr. Pierce explained that either the city or the ultimate recipient would have to provide 20% of the requested amount as a down payment. Either way, Mr. Pierce said the city assumes all the risks.

Ms. Peel asked if that is what the city is trying to avoid; Mr. Pierce reiterated that either way the city will assume all risks.

Ms. Peel asked if there is already a program in place and if this would be in addition. Mr. Pierce stated that we would have to find an applicant and submit the application. The process could only take a couple months versus the other six to eight month process. We control this by speeding things up.

Mr. Pierce informed the committee that funds are available. The negative part is the USDA reviews the application and does the background checks. However, they assume no risks because the city is required to pay them back regardless.

Ms. Peel asked what we can do to make it more attractive over the applicant choosing the USDA versus city program.

Mr. Pierce explained that they have to go through the city to apply to the USDA. The only benefit to the applicant with a city program would be less time; Mr. Grier pointed out that is why he prefers ten years versus five.

Mr. Grier really likes the idea of prioritizing the desired locations and targeting specific areas of the city. That could end up 20% or so.

Mr. Pierce agreed adding that his rough draft showed specific areas would receive more points. In that way, no one is excluded from applying though someone on Rehoboth Boulevard or Route 30 may have a great idea even though it is not in the downtown area. He emphasized that we do not want to eliminate applications based on specific locations adding that flexibility is required.

Mayor Shupe feels having the application may open doors for other ways the city can help them. We know they are already interested and even if the project is not approved for the funding, it could open discussions for other ways to assist.

Mr. Mergner said the only thing he wants to add is to include existing companies who are struggling at their current locations. They should be asked what is preventing them from expanding. Another possibility is to utilize community colleges and determine the fears of young students/entrepreneurs and what could be done to help them to start a business. We might receive some good feedback as a result.

Mayor Shupe referenced the Downtown Master Plan and one of the concerns was the lack of foot traffic. Their solution was to bring in more entities which would attract more people downtown. When his business was on Southwest Front Street, there was very little foot traffic and he felt an anchor type store or restaurant was needed to attract people. That is what he feels this is crucial for the downtown area though it may be different at the business park or other areas. We need to identify the type of project that will encourage downtown foot traffic.

Mr. Brooks suggests the downtown businesses stay open later on Friday and Saturday nights. He has observed a very quiet and desolate downtown at 5:30 p.m. on any weekend night.

Mayor Shupe agreed adding that the Master Plan encourages more restaurants in the downtown area. In addition to the restaurants, other businesses would benefit as well. He explained it is a business decision whether or not to stay open later on weekends. When his business moved from Southwest Front Street to the Arena's shopping center, they extended their hours from 5:00 p.m. to 7:00 p.m. on Saturdays. Those hours are now one of the busiest times because of the dinner crowds. He pointed out there was no draw on Southwest Front Street.

He noted that the Downtown Master Plan recommends two to three more restaurants that will generate foot traffic from 5:00 to 8:00 p.m. and on Saturday and Sundays. At that point, the business will stay open because they are making more money because of the additional foot traffic.

Mr. Grier agreed the Downtown Master Plan recommended starting with the anchors and then encouraging other businesses to stay open a couple nights a month. For example, everyone stayed open a certain Wednesday until 8:00 p.m. Then the next month, it grew to three days a month. That created a trend to get consumers downtown. At the end of a couple of years, it results in more storefronts and definitely more open at night.

Mr. Brooks recalled many years ago when all the businesses closed at noon on Wednesday, but were open both Friday and Saturday nights.

Ms. Wilson agreed recalling when her family walked downtown. Though everyone had a car, it was part of the culture to walk downtown. All stores were open including a hardware, clothing, shoe, furniture, five and dime and department stores. Because of the various types of stores, there was something for everyone.

Mr. Pierce asked if the committee had any concerns before he moves forward with this. He and Mr. Portmann will proceed by putting together some guidelines, with the help of the solicitor. They will try to leave some flexibility to encourage more applicants.

Chairman Grier encouraged committee members to contact him or Mr. Pierce with any new ideas or suggestions.

With no other business, Mr. Grier moved to adjourn, seconded by Mr. Starling. Motion carried.

The Economic Development Committee Meeting concluded at 6:18 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Terri K. Hudson". The signature is fluid and cursive, with a large initial "T" and "H".

Terri K. Hudson, MMC
City Clerk/Recorder