

Hinesburg's Revolving Loan Fund

STATUS OF THE FUND

The Hinesburg Revolving Loan Fund will contain approximately \$250,000 as Vermont Smoke and Cure repays its loan over the next five years. The current balance is approximately \$60,000. If we don't disburse the loan funds within a reasonable amount of time, the money goes back to the State of Vermont. The Vermont Community Development Program allows for up to 20% of the loan amount to be used for administration and management.

RESEARCH

In an attempt to understand our options, the Hinesburg Economic Development Committee (HEDC) has done research around the management of the fund. We interviewed a number of organizations and individuals including: Community Capital of Vermont; GBIC; Colchester Town Manager Dawn Francis; Jenny Kassan of Cutting Edge Capital; Carl Bohlen & Claire Forbes of Vermont Agency and Commerce and Community Development; Vermont Community Development Program; Vermont Community Foundation; Addison County Economic Development Corporation; and Vermont Community Loan Fund.

PROCESS

Based on this preliminary screening, we identified three distinct next steps:

- Set up the application process. This includes everything from creating application documents, establishing the size and number of loans that will be made, the interest rate and fees for the loans, criteria for scoring applicants, and creating documents that keep the town in legal compliance. This is a one-time event—to create these documents and establish the process.
- Create a process to screen, review and approve or deny loan applications. There may be a point person who vets and coaches applicants early in the process. The final applications would then come to the committee for review and approval based on criteria established in step 1. This is an ongoing process based on the timing and quantity of applications.
- Manage and monitor loans. This includes everything from signing documents, disbursing loan payments, receiving borrower payments, and communicating with loan recipients to assess performance and progress of the businesses. This is an ongoing process based on the quantity of loans committed.

OPTIONS/FINDINGS

When considering our options and developing a plan there are two additional points that need to be added to the discussion.

1. If we don't distribute funds by xxx date (Melissa do you know this information) then the funds automatically go back to the State of Vermont and we lose the ability to utilize these resources in our town. Therefore it is incumbent upon us to act fairly quickly to develop and implement a plan.
2. The Vermont Community Development program allows up to 20% of the loan fund to be used for administration and management. This gives us the resources to contract with outside parties to help organize and manage the fund.

For each of these steps it is possible to contract with outside parties to do the work internally. There are pros and cons to this approach. Initially, HEDC felt it made sense for Hinesburg to manage the Fund ourselves and control the whole process. However, with our research we raised a number of issues and concerns.

There are a range of legal and logistical factors that must be addressed to assure that the Fund, our town, and any borrower stay in compliance and protect themselves from potential conflict. Additionally, denying loans to applicants who are our neighbors, or dealing with loans that go bad can present some real challenges.

HEDC is a volunteer committee and does not have dedicated staff support. As such we did not want to create unrealistic expectations for what the committee could manage. In talking with various town staff and Select Board, it is also clear that town employees are unable to add this responsibility to their current workload.

RECOMMENDATIONS

Based on these findings we offer the following recommendation to establish and run the Hinesbug Revolving Loan Fund:

- Contract with an outside party to establish and manage the fund. There would be a fee to create the documents and define the process. We are waiting for a proposal from ACEDC; at that point, we'll better understand the costs. Long term, the loan committee would control the documents and process.
- Establish our own loan review committee. This would require soliciting the right mix of individuals with skills to assess and score loan applications. We could possibly contract with an outside party to coach the Loan Committee through the first loan application decisions. Long term, the loan committee would be self-sufficient.
- Contract with an outside party to manage and monitor the loan portfolio. Eventually, we would like to see this task managed by Hinesburg town staff. But in the short term, this would be a contracted service.

HEDC understands the desire and appeal of creating, controlling and managing the Fund internally. Long term, it is HEDC's goal and recommendation to bring part or all of the process in-house. However, our first priority is to launch and grow the Fund successfully. Therefore, we feel it is prudent and preferable to contract with organizations that have experience managing a similar fund. This increases the odds that the Hinesburg Revolving Loan Fund will be a sustainable asset for our community.

NEXT STEPS

HEDC believes Addison County Economic Development Corporation (ACEDC) would best meet our needs. We have asked them for a bid proposal estimating timing and fees. Once we receive this information from ACEDC, we will bring a formal proposal to the Selectboard.

With the Selectboard's approval, HEDC would create a Memorandum of Understanding and contract for ACEDC to begin work. It is our plan to work with ACEDC on the recommended next steps and create the Hinesburg Revolving Loan Fund Committee.